

How effective is EU aid on the ground?

A comparative assessment of EU assistance in Cambodia, Mozambique and Peru, and lessons learned

SYNTHESIS REPORT

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ACRONYMS AND ABBREVIATIONS

@LIS	Alliance for the Information Society (EuropeAid)
ACP	Africa, Caribbean and Pacific
ADB	Asian Development Bank
AECI	Spanish Agency for International Cooperation
AER	Aid Effectiveness Report (Cambodia)
AfDB	African Development Bank
AGORAH	Support Programme for Social and Economic Development and Decentralisation in the Regions of Ayacucho and Huancavelica (Peru)
AIDCO	EuropeAid Cooperation Office
ALA	Asia and Latin America
ALBAN	EU Programme of High Level Scholarships for Latin America
ALFA	Latin America Academic Training
AL-Invest	Latin America Investment
AMARES	Support to Modernisation of the Health Sector and its Application to one Region in Peru
AN	National Agreement (<i>Acuerdo Nacional</i> – Peru)
APCI	Peruvian Agency for International Cooperation
ATM	Mozambique Revenue Authority
BdM	Bank of Mozambique (central bank)
CADE	Annual Conference of Entrepreneurs (Peru)
CAF	Andean Development Corporation
CAN	Andean Community
CD	Committee on Development
CDC	Council for the Development of Cambodia
CDCF	Cambodia Development Cooperation Forum
CEPLAN	Centre for Strategic Planning (Peru)
CERIAJUS	Special Commission for the Integral Reform of the Administration of Justice (Peru)
CFMP	Medium-term fiscal framework (Mozambique)
CG	Consultative Group (Cambodia)
CMDGs	Cambodian Millennium Development Goals
CPA	Cotonou Partnership Agreement
CPIA	Country Policy and Institutional Assessment
CPP	Cambodian People’s Party
CRDB	Cambodia Rehabilitation and Development Board
CS-19	Group of 19 donors developing coordinated CSPs in 2006 (Mozambique)
CSO	Civil society organisation
CSP	Country Strategy Paper

CUT	Single treasury account (Mozambique)
DAC	Development Assistance Committee (OECD)
DCI	Development Cooperation and Economic Cooperation Instrument
DE	Directorate of Economics (MINAG – Peru)
DESC	Social, economic and cultural rights (Peru)
DFID	UK Department for International Development
DGPM	General Directorate of Multi-annual Programming (MEF – Peru)
DIC	Directorate of Investment and Cooperation (MPD – Mozambique)
DNEAP	National Directorate of Studies and Policy Analysis (Mozambique)
DNP	National Directorate of Planning (MPD – Mozambique)
DNPC	National Directorate of Planning and Cooperation (MISAU – Mozambique)
DPG	Development Policy Group
DELMOZ	Delegation of the EC in Mozambique
EC / COM	European Commission
EDF	European Development Fund
EFA	Education For All
EIDHR	European Initiative for Democracy and Human Rights
ENAHO	National Household Survey (Peru)
ENPI	European Neighbourhood and Partnership Instrument
EP	European Parliament
eSISTAFE	Electronic Integrated Financial Management Information System (Mozambique)
ESSP	Education Sector Support Programme (Cambodia)
EU	European Union
EU+ DbIS	EU Database Information System
EUEI	EU Energy Initiative
EUROSociAL	Regional Programme for Social Cohesion in Latin America.
EUROSOLAR	Cooperation Programme between the EU and Latin America in the Renewable Energy Sector
EUWI	EU Water Initiative
FORTAPCI	Project for Strengthening the APCI
FRELIMO	Mozambique Liberation Front
FTI	Fast Track Initiative
FUNCINPEC	National United Front for an Independent, Neutral, Peaceful and Cooperative Cambodia
G-19	Group of 19 (the 19 donors providing GBS – synonymous with PAPs)
G-20	Group of 20 (civil society umbrella organisation)
GBS	General budget support
GDCC	Government-Donors Coordination Committee (Cambodia)
GDP	Gross domestic product

GFATM	Global Fund to Combat AIDS, Tuberculosis and Malaria
GNI	Gross national income
GNP	Gross national product
GoM	Government of Mozambique
GTZ	German Technical Cooperation
H&A	Harmonisation and alignment
H-A-R	Harmonisation, alignment, results
HDI	Human Development Index
HIV/AIDS	Acquired Human Immuno-deficiency Syndrome/Virus
HLF	High level forum
HoM	Head of Mission
HPI	Human Poverty Index
HR	Human resources
ICT	Information and communication technology
IDA	International Development Agency
IDB	Inter-American Development Bank
IMF	International Monetary Fund
IFI	International financial institution
IPA	Instrument for Pre-accession Assistance
JICA	Japan International Cooperation Agency
JMI	Joint monitoring indicator (JMI)
JUSPER	Support to the Peruvian Justice System Reform.
KFW	German Reconstruction Credit Institute (German development bank)
LA	Latin America
LAC	Latin America and Caribbean
LDC	Least developed countries
LICUS	Low-income country under stress
LMI	Lower middle-income
M&E	Monitoring and evaluation
MADER	Ministry of Agriculture and Rural Development (now MINAG – Peru)
MCC	Millennium Challenge Corporation
MCLCP	Coordination Groups for the Fight against Poverty (Peru)
MDG	Millennium Development Goal
MEDA	Euro-Mediterranean Partnership
MEF	Ministry of Economics and Finance (Peru)
MEP	Member of the EP
MFA	Multi-fiber Arrangement
MFAIC	Ministry of Foreign Affairs and International Cooperation (Cambodia)
MFN	Most-favoured nation

MINAG	Ministry of Agriculture (formerly MADER – Peru)
MINEC	Ministry of Foreign Affairs and Cooperation (Mozambique)
MMM	Multi-annual Macroeconomic Framework (Peru)
MoEYS	Ministry of Education, Youth and Sports (Cambodia)
MoF	Ministry of Finance (formerly a part of MPF – Mozambique)
MoU	Memorandum of Understanding (for GBS unless otherwise stated)
MPD	Ministry of Planning and Development (formerly a part of MPF – Mozambique)
MPF	Ministry of Planning and Finance (now split into MPD and MoF – Mozambique)
MTEF	Medium-term expenditure framework
MTEFF	Medium-term fiscal framework
NAO	National Authorising Officer (Mozambique)
NEPAD	New Partnership for Africa’s Development
NGO	Non-governmental organisation
NIP	National Indicative Programme (EC Cambodia)
Norad	Norwegian Agency for Development Cooperation
NPIC	National Policy for International Cooperation (Peru)
NRIC	Non-refundable international cooperation funds (Peru)
NSA	Non-state actor
NSDP	National Strategic Development Plan (Cambodia)
ODA	Official development assistance
ODAMOZ	ODA Database for Mozambique
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department (World Bank)
PAF	Performance Assessment Framework
PAMS	Poverty Analysis and Monitoring systems Working Group (Mozambique)
PAP	Priority action programme (Cambodia)
PAP	Programme aid partner (Mozambique)
PARPA	Action Plan for the Reduction of Absolute Poverty (Mozambique)
PBS	Provincial Budget Support
PCM	Prime Minister’s Office (Peru)
PCN	Programme Concept Note
PD	Paris Declaration
PENX	National Strategic Export Plan (Peru)
PFM	Public financial management
PFMRP	Public Financial Management Reform Programme (Cambodia)
PIP	Public investment programme (Cambodia)
PIU	Project implementation unit
PMU	Project management unit

PQG	Five-year plan (Mozambique)
PROAGRI I	Agriculture sector SWAp (Mozambique)
PRODAPP	Alternative Development Program in Pozuzo and Palcazú
PRODELICA	Integral Development Plan for the Region of La Libertad and Cajamarca (Peru)
PROPOLI	Programme to Fight Against Poverty in Metropolitan Lima
PRGO	Poverty Reduction Growth Operation (formerly PRSO – Cambodia)
PRS	Poverty reduction strategy
PRSO	Poverty Reduction Support Operation (now PRGO – Cambodia)
PRSP	Poverty reduction strategy paper
RBM	Results-based management
RENAMO	Mozambican National Resistance
RFP	Request for proposal
RGC	Royal Government of Cambodia
SAP	Structural adjustment programme
SBS	Sectoral budget support
SDC	Swiss Agency for Development and Cooperation
SISTAFE	Integrated Financial Management Information System (Mozambique)
SNIP	National System for Public Investment (Peru)
SWAp	Sector-wide approach
TA	Technical Assistance
TACIS	Technical Assistance to Commonwealth of Independent States
TWG	Technical working group
UEM	Eduardo Mondlane University
UK	United Kingdom
UN	United Nations
UNCT	UN Country Team
UNDP	UN Development Program
UNDAF	UN Development Assistance Framework
UNICEF	UN Children’s Fund
UNTAC	UN Transitional Authority in Cambodia
URBAL	Project for Exchanges Between Local Authorities of Europe and Latin America
US	United States
USAID	US Agency for International Development
VAT	Value-added tax

FOREWORD

DESCRIPTION OF THE STUDY AND ITS DIMENSIONS

This report was commissioned by the Committee on Development (CD) of the European Parliament (EP) as part of a project to assess the effectiveness of the international development assistance of the European Union in general and the European Commission (EC) in particular in three specific countries. The project was commissioned to ODI as a direct follow-up on a report prepared by MEP Alain Hutchinson in September 2006 titled 'More and Better Cooperation: the 2006 EU Aid Effectiveness Package' (henceforth Hutchinson Report). Submitted to the CD, the Hutchinson Report, along with the accompanying motion for an EP resolution, highlight the European Union's (EU) goal of improving the delivery of European aid to developing countries. One of the specific recommendations of the Hutchinson Report is to undertake a few country case studies to provide the proposed working group on European aid effectiveness and monitoring of the European Consensus for Development¹ with a better picture of efforts and results at national level. This ODI synthesis report of EU/EC aid effectiveness is a product of this recommendation.

The three country cases included in the project are Cambodia, Mozambique and Peru. As will be explained in the report, these countries were selected based on a methodology designed by the ODI team. The case studies are based on interviews with key stakeholders in the field (including EC delegation staff, EU bilateral donors, multilateral donors, government representatives and, where possible, civil society actors) as well as a desk-based review of key documents (such as evaluations, country reports, surveys, etc).

It is essential to emphasise from the outset that the country studies aim to provide a view from the ground of a vast area: the effectiveness of EC aid to Cambodia, Mozambique and Peru. Given the short timeframe and limited resources available to undertake this project as a whole², the case studies seek to identify broad trends and carry out a mapping of EC (and other donor) activities; they are therefore not formal 'evaluations'. These three case studies seek to provide an 'impressionistic' overview of EC assistance, with an emphasis on the effectiveness of EC aid within the framework outlined in the Paris Declaration (PD) (including ownership, harmonisation and alignment efforts, and issues of internal coherence within EC aid). Some of the main challenges and lessons emerging for the EU from a comparative analysis of the three case studies are also provided.

Another important caveat is that, due to the constraints pointed out above, this report does not address a series of issues which need to be further investigated. These include, among others, coherence in the implementation of EU-wide actions and policies regarding, for instance, the relationship between trade and development in the Economic Partnership Agreements with ACP (African, Caribbean and Pacific) countries, or the intersections and interactions among foreign, security and development policies (e.g., the European Security Strategy of 2003). These issues are treated at length in *Open Europe* (2007) and *Grimm* (forthcoming), among others. Furthermore, the report does not aspire to cover the coherence of EU activities, i.e. EC programmes and activities of the 27 bilateral programmes of Member States (on division of labour see Mürle 2007; or, on foreign policy see Keukeleire 2006).

In addition to this foreword and an executive summary, this report is divided into six further chapters. Chapter 1 defines the concept of aid effectiveness within the framework of the PD. Chapter 2 provides a brief glance at EU development assistance and then looks at EU efforts to promote aid effectiveness, both in terms of broad EU initiatives and of reforms to the EC. Chapter 3 lays out the rationale for selecting the three case studies chosen for this project. The following three chapters, Chapters 4, 5, and 6, consist of the case studies themselves, on Cambodia, Mozambique and Peru, respectively. Drawing on those three previous chapters, Chapter 7 provides a synthesis analysis of the three case studies and outlines some of the main

¹ Comprising members of the CD supported by the EC, member states, development NGOs, representatives of civil society and trade unions.

² Indeed, to provide a sense of perspective, a full EC internal evaluation exercise which overlapped with the fieldwork for the Mozambique study required around 60 person-days of fieldwork; there were 10 available for each of the country cases for this project commissioned by the CD.

challenges and lessons that derive from them. A series of annexes is attached at the end. Annex 9 in particular consists of the presentation that the ODI team made in front of the Committee on Development of the European Parliament on 16 July 2007, which was in general very well received. This Annex may be of particular interest given that it contains a few key recommendations (suggested by Andrew Lawson) which are not part of the main body of this report.

EXECUTIVE SUMMARY

The PD represents an unprecedented effort to transform the way in which international assistance is delivered and managed. Signed in 2005 by 61 bilateral and multilateral donors and 56 aid recipient countries (some of which are both donors and recipients, e.g. China), the PD embodies a new paradigm of ‘effective aid’ which is founded on a discourse of country-led partnership and co-responsibility. In particular, signatories made a commitment to reform the way development assistance is currently delivered in three broad areas:

- Recipient-country ‘ownership’ of the development agenda;
- Donor alignment with the priorities and goals set by partner countries and increased reliance on national administration systems;
- More coordinated, streamlined and harmonised actions among multiple donors.

The PD also has two crosscutting concepts: mutual accountability and an emphasis on management for results.

As such, it is a joint undertaking on the part of both the donor community and partner countries to make aid more effective; the commitments are interdependent. The PD also stands out from previous international initiatives to reform the aid system in that it establishes 12 agreed indicators which are intended to be monitored over time through suggested targets.

The EU is a major player in the international aid system. Today, the EU (including member states and the Community programmes) accounts for more than half of worldwide official development assistance (ODA), and the EU includes 15 of the 22 bilateral donors organised in the DAC. However, as captured in the Hutchinson Report, there is a widespread perception that this position has not translated into effective leadership. In particular, EC (and other EU members’ bilateral) aid needs to be scaled up – a timetable for which was agreed at EU level in May 2005 – if the Millennium Development Goals (MDGs) and other important development objectives are to be achieved.

In an attempt to improve the effectiveness of European aid, the EU has been actively involved and has exerted considerable leadership in several initiatives. All 27 EU members are signatories of the PD. In addition, in December 2005, the Commission (COM), the Council, the EP and the Member States jointly approved the European Consensus on Development. The Consensus is the first such policy document to provide both member states’ bilateral efforts and the EC with a common vision of values, objectives, principles and means to development and, in some respects, it goes further than the commitments made in Paris. This high-level document is also of essential importance for EU development policy in that a number of new member states are in the process of formulating their development policies (this is one of the requirements of EU accession, since development policy is part of the ‘common achievements’ of the EU).

In May 2007, the Council approved the EU Code of Conduct on Complementarity and Division of Labour in Development Policy, and member states and the EC have committed themselves to implementing this. The Code contains 11 guiding principles for better division of labour among EU donors and for a global presence of the EU in developing countries. If implemented, its impact could be considerable in terms of limiting the number of donors involved in any one country or sector.

In addition to these EU-wide efforts on aid effectiveness, the Commission itself has undergone important reforms since the late 1990s/2000 in order to turn itself into a more effective development institution. Among other things, a number of planning documents and instruments have been introduced to simplify EC structures and give greater coherence to its assistance. These include the establishment of the EuropeAid office as the single implementing agency to handle EC foreign aid, the introduction of country strategy papers (CSPs) as a joint planning mechanism, and a move towards ‘deconcentration’ to shift greater responsibilities from headquarters in Brussels to EC delegations in partner countries. More recently, the EC has introduced/refined a series of financial instruments in an attempt to simplify a system of relatively complex and burdensome structures and to facilitate greater coherence and consistency. The number of regulations which govern external cooperation have been reduced from more than 35 to a total of nine

instruments,³ making ‘grand strategies’ an even more important instrument to be monitored by the European Parliament. On the other hand, despite repeated EP demands and COM proposals on the matter, the European Development Fund (EDF), which provides the bulk of support to ACP countries, continues to remain outside the EU budget.

As described in detail in the three case study chapters included in this report, the quality of EC (as well as other donor) aid seems to be improving in important respects. However, progress remains slow, negative images or bad habits are hard to change and much work remains to be done if the objectives laid out in the PD, the European Consensus on Development, the EU Code of Conduct and other important declarations are to materialise on the ground. Positive points to note on EC programmes include improved policy documents, changes in aid modalities, delegation of more decisions to COM offices in the partner countries, and more efforts in the political dimension of cooperation (political and policy dialogue). Yet, evidence from our three case studies also point to persisting challenges in the area of partner country capacities, wider coordination among the EC and EU member states as well as beyond European aid. Issues of coherence in EC programming (development cooperation – trade – security policy – Common Agricultural Policy – Common Fisheries Policy, etc.) are also persisting and are likely to have a strong effect on European aid effectiveness, but will not be the focus of this report.

Some of the lessons that emerge from the case studies include the following:

The quality of national institutions is essential in promoting (or limiting) the effectiveness of aid

One of the most critical challenges for the aid effectiveness agenda is how to turn into reality the concept of country ownership of the development agenda – the pinnacle of the PD. The quality of government institutions (both national and sub-national) is a factor of crucial importance in helping to move in this direction, as a growing body of evidence suggests. Unfortunately, as the three case studies highlight, it cannot be assumed that government institutions in-country are sufficiently strong and effective and that they have the ability to act in a sufficiently coordinated manner. In all three cases, weaknesses in government institutions constrain ownership of the development agenda and aid effectiveness more broadly.

Harmonisation and alignment are crucial for a positive impact on state capacity...

What is at stake in improving the quality of national institutions and overall state capacity is not merely a technocratic engagement, but nothing short of creating and/or strengthening state institutions that are more legitimate, more representative and inclusive, and more effective. This is clearly an inherently political endeavour, and also one that needs to be driven by internal actors over the long term (Booth et al., 2006; Fritz and Rocha Menocal, 2006). Donors cannot expect to be able to impose reforms from the outside without the necessary support from at least some domestic stakeholders. On the other hand, there is much that donors can do to accompany – or, as has often been the case, undermine – reform processes intended to strengthen government institutions and state capacity more broadly. Increased harmonisation and alignment with partner countries can – but does not necessarily have to – create tension with national scrutiny; new mechanisms for national accountability have to be found, e.g. via strategy papers and results-orientation rather than an input rationale.

All three case studies look at some of the efforts undertaken by the EC (and others) to promote greater harmonisation and alignment in its international cooperation. Some of the common mechanisms being used or implemented with relative success include:

- Formalised thematic taskforces (Peru) or technical working groups (TWGs) (Cambodia) strengthening cooperation between the government and partners and facilitating technical-level dialogue on particular areas and sectors.

³ These 9 instruments, some of which are thematic and some of which are geographic, include the following: Development (DCI); Neighbourhood; Industrialised Countries; Human Rights and Democracy; Pre-Accession; Stability; Humanitarian Aid; Macro-financial Assistance; and Nuclear Energy Security. The thematic programmes are included in the DCI regulation.

- High-level fora for government-donor interactions (Government-Donors Coordination Committee (GDCC) in Cambodia; Donors' Forum in Peru; Group of 19 (G-19) programme aid partners (PAPs) for GBS (general budget support) in Mozambique).
- Elaboration of centralised databases providing thorough information on international aid by source and theme (ODAMAZ – ODA Database for Mozambique – and a similar matrix in Peru).
- Increased reliance GBS, especially in Mozambique but also emerging in Cambodia.

On the other hand, as highlighted in all three case studies, progress on harmonisation and alignment has largely focused on the level of sharing and spreading information, and has not necessarily resulted in joint activities in the short-term. In the three countries we found positive examples of establishing fora for discussion and coordination, sharing information, raising awareness of areas of engagement, planning for future aid effectiveness initiatives and developing joint policy positions where possible. Further steps need to be taken. EC and other donor harmonisation efforts need to be scaled up considerably to include agreements on joint technical assistance and the streamlining of systems and procedures. Without a considerably sustained effort on these tougher issues, it is not clear how the EC and other EU members will be able to implement the division of labour envisioned in the EU Code of Conduct, for example.

... as donors and development agencies can be considerably detrimental

A variety of donor actions (including the EC, but by far not limited to EU agencies) persist in all three countries which result in considerable institutional collateral damage. The Cambodian case study, for instance, describes how an incredibly fragmented aid system imposes unreasonably high transaction costs on the government, drains valuable resources and fundamentally weakens its capacity. In Peru, donor alignment with country systems remains especially weak in the case of grants, and 55 PIUs (project implementation units) are currently in place at the national level. There is a general feeling in the Peruvian context that it is better to rely on parallel systems to speed up disbursements and avoid red tape. But it is essential for the EC (and others) to keep in mind that speed and convenience, while appealing in the short term, may not help foster state capacity and the building of stronger institutions in the long term. In addition, these practices (donor fragmentation, continued reliance on project modalities, etc) pose serious challenges for the successful implementation of commitments the EC and other (EU) donors have made.

Furthermore, the complexity of EC practices and requirements themselves (even if often rooted in the desire for enhanced accountability of COM activities) often undermine important aspects of the aid effectiveness agenda. Interviewees across the three countries included in this study raised the way in which some EC procedures operate, especially those related to budget lines, as a matter of concern. The fact that many of the thematic and regional budget lines are managed from Brussels or other regional locations means that they can be more tightly controlled by the European Parliament. In effect, however, it also means that they can often be out of step with national-level efforts to promote country ownership, alignment and harmonisation. This puts EC delegations in an awkward position in relation to aid effectiveness – and also threatens to undermine not only COM standing but the standing of all European Union institutions (including the European Parliament), as well as potential influence of the EU in broader policy dialogue. It remains unclear whether the recently introduced reforms will be able to address the concerns stemming from the EC delegations in full and effective scrutiny of policies with new planning process remains a challenge.

Much of the work that needs to be undertaken to improve donor practice depends on political will and sustained commitment, both by national governments and their parliamentary bodies and by donors themselves at all levels, also including the legislative. For instance, the EC Delegation in Mozambique has suggested provisions in the Cotonou Partnership Agreement (CPA) exempting EC aid to ACP countries from taxes addressed so as to allow the EC to pay tax on its aid. However, if the current situation is to change, some kind of intervention from higher EU levels is necessary – and this may be an issue that the EP in particular could pick up.

Individuals, personalities and staffing levels matter in the aid relationship

Much of the success or failure of cooperation efforts depends on individual interactions, specific innovators and appropriate staffing levels for carrying out the tasks at hand. Harmonisation and alignment have many benefits, but as all three of the case studies in this project illustrate, the costs are also quite high. A common theme that emerges throughout the case studies (especially in Mozambique) is relatively how much

delegations have been able to accomplish given the rather limited resources at hand. This is something of which both headquarters in Brussels and delegations need to be more fully aware when defining their human resource management policies. It is also another aspect the European Parliament could exert pressure for: hearings of future heads of delegations in parliamentary committees or the like, as in the US Congress.⁴

CSPs can potentially improve aid effectiveness — but their quality remains uneven

CSPs are intended to be the EC's (potentially: the EU's) central planning documents at the country level. They are meant to provide a mechanism for coordinated programming, carried out jointly at the European level, and based on the principle of country ownership. However, as suggested by the different experiences recounted in the case studies, the process through which CSPs are elaborated is of varying quality and depth. A more sustained effort by COM staff to engage in meaningful dialogue with key actors and make the process as participatory and inclusive as possible seems to be required to turn CSPs into real joint coordination tools. This, of course, may be more easily said than done, especially in contexts of weak governance and/or little negotiation capacity of the partner government.

Finally, relations between HQ and delegations needs to be further improved

An important part of the issue of enhanced internal coordination and coherence relates to the discussion on thematic and budget lines. Over the past few years, there has been a considerable effort to simplify the way in which budget lines work and in particular to give greater say and autonomy to the Delegations through deconcentration and other reforms. This will require the EP to shift its focus in holding the Commission accountable: away from (micro)managing input into budget line, towards checks on delivery via results-oriented management. Nevertheless, improved dialogue between Brussels and the EC delegations is still needed to ensure that the budget lines managed from far away adequately respond to and support ongoing country-level efforts to improve aid effectiveness. Beyond budget lines, poor communication and coordination also add unnecessary complexity to interaction among EU actors, who are at times poorly informed about what others are doing. As a result, different actions undertaken at different levels may end up at cross purposes. In addition, many of those interviewed pointed to missed opportunities in sharing lessons across the COM and other EU institutions and strengthening the capacity of the EC to act as a learning and knowledge network to increase coherence and aid effectiveness.

⁴ This, however, would only become possible if delegations turn into representations of the EU, not just the Commission, as currently is the case.

CHAPTER 1

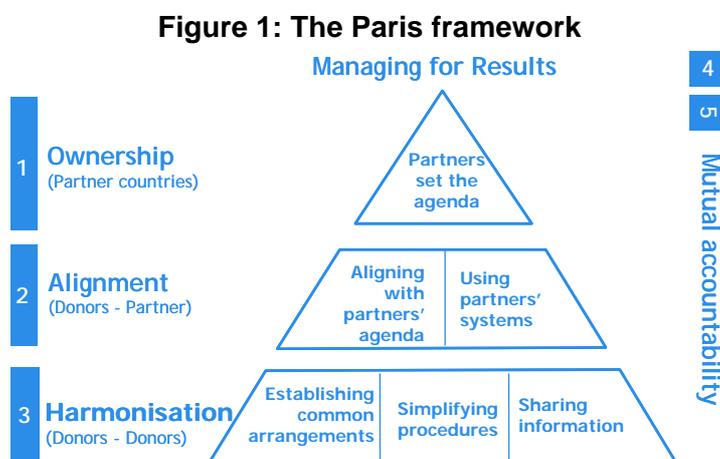
UNDERSTANDING THE AID EFFECTIVENESS AGENDA: THE PARIS DECLARATION AND ITS KEY PRINCIPLES

1.1 *The Paris Declaration and its significance*

The PD represents an unprecedented effort to transform the way in which international assistance is delivered and managed. Signed by 61 bilateral and multilateral donors, and 56 aid recipient countries (with 14 civil society organisations – CSOs – acting as observers), at the High-Level Forum on Aid Effectiveness in Paris in 2005, the PD embodies a new paradigm of ‘effective aid’ founded on a discourse of country-led partnership and co-responsibility. As such, it is a joint undertaking on the part of both the donor community and partner countries to make aid more effective; the commitments they each make are interdependent. The PD also stands out from previous international initiatives to reform the aid system in that it establishes 12 agreed indicators which are intended to be monitored over time through suggested targets.

The PD is seen by many observers as representing significant progress in establishing ‘a set of monitorable targets for changes in donor, recipient, and joint behaviour’ which could well embody ‘the core of a new compact on mutual accountability’ to make aid more effective (Rogerson, 2005: 531). In particular, signatories made a commitment to reform the way development assistance is currently delivered in three broad areas: recipient-country ‘ownership’ of the development agenda; donor alignment with the priorities and goals set by partner countries and increased reliance on national administration systems; and more coordinated, streamlined and harmonised actions among multiple donors. The PD also has two crosscutting concepts: mutual accountability and an emphasis on management for results.

The Paris framework can conceptually be visualised as follows:



Because of the nature of this study and the areas it has chosen to prioritise, the discussion below focuses on ownership, alignment and harmonisation, while mutual accountability and management for results are addressed in a more limited manner.⁵

1.2 *Country ownership*

As illustrated in Figure 1, one of the central elements underpinning the new aid paradigm is that of ‘partner country ownership’. This is at the apex of the Paris pyramid. There has been a growing awareness, especially among donors, of the need for recipient governments to establish development priorities and to take on a more proactive role in determining how aid is allocated and targeted, as well as managed. Donors now recognise that the lack of ownership in the structural adjustment programmes (SAPs) of the 1980s and 1990s

⁵ For more in-depth treatment of mutual accountability and management for results, see Booth et al. (2007).

often meant that (donor-driven) policies were not adapted to suit specific country contexts and were frequently not implemented as intended.

There are two significant dimensions of the concept of ownership embedded in the PD: i) the extent to which countries have clear development strategies that donors can follow or align with (e.g. PRSPs – poverty reduction strategy papers – or equivalent); and ii) the degree to which governments take the lead in coordinating aid-funded activities (Booth et al., 2007). The agreed target established by the Paris indicator of progress in ownership is for at least 75% of partner countries to have operational development strategies ‘that have clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets’ (OECD DAC, 2005a). The expectation is that national development strategies will provide a strategic policy framework based on country ownership and oriented towards results that donors can support. This assumes as well that government institutions in-country are sufficiently strong and effective, and that they have the ability to act in a coordinated manner and speak with one voice.

1.3 Alignment

Following from its professed commitment to country ownership, the PD envisions a situation in which donors base their support on partner countries’ own national development priorities and systems. Donor alignment covers two broad areas. The first is policy alignment, which calls upon donors to follow a partner country’s development strategies and national policy objectives (be they PRSPs, national plans or sector strategies). The second is systems alignment, or (increasing) donor reliance on country institutions and procedures, rather than on parallel systems of management and implementation.

The concept of alignment captures the interdependent nature of the PD. Clearly, the degree to which donors are able to align with country priorities and procedures is closely linked with the extent to which partner countries can formulate coherent development strategies with a long-term vision and realistic medium-term implementation plans. So progress on this front depends on both donor and partner country efforts.

1.4 Harmonisation

A large part of the problem affecting the quality and effectiveness of aid to developing countries seems to be that ‘there are too many cooks in the kitchen’ (de Renzio and Rogerson, 2005). Today, the international aid system consists of a loose aggregation of more than 90 aid agencies, and this continues to expand. The latest newcomers include the Millennium Challenge Corporation (MCC), launched by the US, and the Global Fund to Combat AIDS, Tuberculosis and Malaria (GFATM), among others. There is a growing perception among donors and recipient governments alike that this multiplicity of agencies, each striving to leave its mark, is compounded by a multiplicity of agendas and purposes which lead to a number of different inefficiencies. These range from poor coordination to high transaction costs for recipient governments, which have to deal with a variety of donors at once, each with its own priorities and list of requirements.

Hence the emphasis on harmonisation in the PD. Harmonisation involves better coordination among donors and the adoption, to the extent possible, of simplified, more transparent and more consistent and predictable common procedures. Among other things, the Paris agenda sets indicators for the use of common arrangements and procedures, and for increased shared analysis. In terms of the former, a number of aid modalities and mechanisms – notably, increased use of budget support⁶ and other sector-based programmatic approaches – is encouraged. The working assumption is that programmatic assistance simplifies and streamlines the aid relationship and serves to strengthen domestic accountability mechanisms.

The new frontier may well be for donors and partner countries to work together towards a ‘division of labour’ in development cooperation. The main goal of this division of labour is to reduce the number of donors involved in the same kind of activities in the same country, and thus rationalise the aid system. A recent discussion paper by the German Development Institute highlights the role that the EU, which recently

⁶ GBS is a form of financial programme aid in which funds are provided in support of a government programme typically focusing on growth, poverty reduction, fiscal adjustment and strengthening institutions, especially budgetary processes. The funds are also channelled directly to a partner government’s treasury department, to spend using its own financial management, procurement and accountability systems. GBS can take the form of a general contribution to the overall budget or be earmarked for a particular sector.

approved its Code of Conduct on the matter (see Chapter 3 of this paper), can play as ‘an engine for a donor-wide division of labour’ given its unique position in the aid system (Mürle, 2007). Partner countries also need to play a leading role in this process by identifying what different aid agencies may offer that others cannot – their comparative advantage – and by using this as far as possible in defining roles that each can usefully play. Whether the recipient country can actually shape the deployment of different donors deliberately, by creating a framework for aid coordination that is more directive of who fits where, is an evolving question.

1.5 Managing for results

The commitments on management for results call for donors and partner countries to work together to manage resources for the achievement of development results, using information on results to improve decision making. Countries are expected to develop cost-effective results-oriented reporting and performance assessment frameworks; donors commit to using any such arrangements and refrain from requiring separate reporting (Booth et al., 2007).

1.6 Mutual accountability

Enshrined in the PD, the principle of mutual accountability is derived from the new paradigm of effective development assistance based on country ownership and donor coordination. It is intended to hold donors and partner governments accountable to each other for their respective actions and emphasises the need for a systematic review and monitoring of mutual commitments. The commitment that has been made on the mutual accountability indicator of the Paris agenda is to ensure that by the year 2010 all partner countries have mutual assessment reviews in place. As noted by the survey analysis undertaken by Booth et al. (2007), movement towards the establishment of mutual accountability mechanisms is only just beginning. It is worth noting that none of the countries included in this project – Cambodia, Mozambique and Peru – has mechanisms for mutual review of progress.

The concept of mutual accountability is not new to the Paris agenda, however. The principle has been promoted in the last decade in a variety of international fora. One such effort that has been pioneered by the EU in conjunction with partner countries is the Cotonou Partnership Agreement (CPA). Signed in 2000, the CPA (which replaces the Lomé Convention) is an aid and trade agreement between 77 ACP states on the one hand and the (then) 15 countries of the EU on the other, with a 20-year life span. The official principles underlying the CPA are: i) equality of partners and ownership of development strategies; ii) participation of ‘non-state actors’ (e.g. NGOs); iii) political (formal) dialogue and mutual obligations (e.g. respect for human rights, democratic principles and the rule of law); and iv) differentiation and regionalisation (e.g. least developed, landlocked, island states etc). There are two pillars of support, one based on economic and trade provisions and the other on development assistance. Priority areas of support include economic development (including support for structural adjustment), social and human development, and regional integration and cooperation.

Curiously, the word ‘accountability’ does not appear anywhere in the text of the CPA, though the emphasis on equal partnership and ownership is clear. Both the ACP states and the EU are given specific responsibilities in terms of how development finance cooperation is to be implemented, and some of the responsibilities (including monitoring and evaluation of development projects and programmes, for example) are meant to be carried out jointly. The CPA also sets up a joint ACP-EC Development Finance Cooperation Committee within the Council of Ministers which is intended to meet quarterly to examine ‘whether the objectives of development finance cooperation are being attained’ and to address ‘general and specific problems resulting from the implementation of that cooperation’ (Cotonou Agreement (EU-ACP, 2000), Article 83).

CHAPTER 2

EU AND EC DEVELOPMENT ASSISTANCE AND EU EFFORTS TO PROMOTE AID EFFECTIVENESS

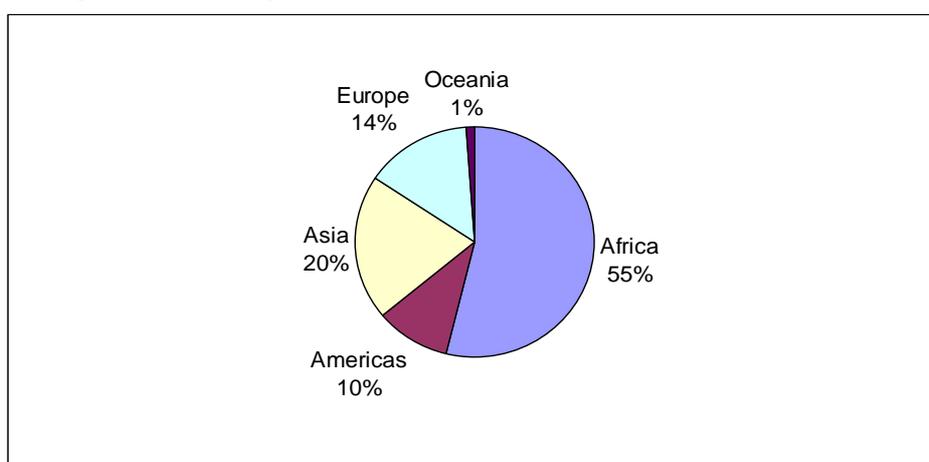
2.1 EU and EC development assistance at a glance⁷

The EU as a whole, as well as the EC in itself, is a major player in the international aid system. Today, the EU (including member states and the Commission) accounts for more than half of worldwide ODA (according to EC figures, it constituted 52% of worldwide net ODA in 2004) and the EC in itself is the second largest distributor of international assistance, after the US. In addition, the EU includes 15 of the 22 bilateral donors organised in the DAC (EC, 2006a). Since 2000, the explicit and overarching objective of EU development assistance has been poverty alleviation.

European development cooperation is active across the globe (see Figure 2). The EC has emerged in recent years as the single largest European donor by disbursement volume (having overtaken Germany in 1994 and France in 1997), followed by the UK, France, Germany and the Netherlands. Approximately 20% of all European development aid is channelled through the EC (Grimm, 2006a). The percentage of aid channelled through 'Brussels', however, varies among Member States. Additionally, the overall efforts made for official development assistance vary. As Figure 3 illustrates, when these figures are expressed as a proportion of member states' GNI, the rankings of 'big' and 'small' donors change dramatically, with smaller economies that have a larger proportionate commitment to aid rising to the top (Luxemburg, Sweden, the Netherlands and Denmark all top 0.5% of GNI). As the EP's Hutchinson Report notes (EP, 2006a; para. 17), a number of countries have a long way to go if they are to reach the PD target and EU timetable of 0.56% of aid as a percentage of GNI by 2010 and 0.7% by 2015 (both figures for the EU-15⁸).

On average, the EC tends to give support to recipient countries with somewhat higher income levels than do EU member states. In 2002, low-income countries accounted for 37% of all disbursed aid, lower middle-income countries received 38% of all EC aid and 9% of aid went to upper middle-income countries (Grimm, 2004).⁹ These figures have slightly picked up in favour of low-income countries in recent years, with countries classified as low income or least developed accounting for 48.8% (38.5% for LDCs, 10.2% for other low-income countries), and lower middle-income countries down to 26.8% (disbursements in 2005 according to EC annual report on external assistance 2006).

Figure 2: Average EC aid distribution by continent, 1990-2005



Source: OECD DAC database.

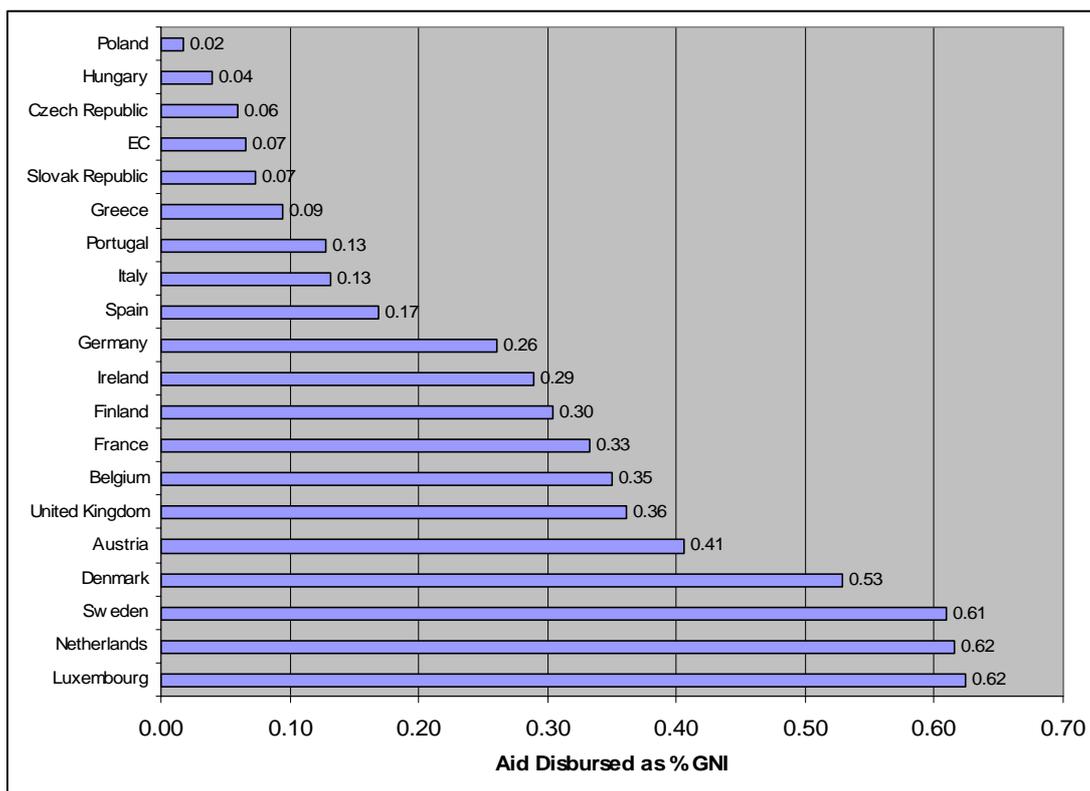
⁷ For a fuller picture of EC and EU member states aid flows, please refer to the methodology paper submitted by ODI to the Committee on Development to select the three country cases for this study, included in Annex 1 of this report.

⁸ EU-12, i.e. the new Member States, have committed to aid levels of 0.33% by 2010 and 0.56% by 2015.

⁹ 13% was unallocated and 3% went to Malta and Slovenia. Both were reclassified as non-developing countries as of 1 January 2003.

This distribution of EC assistance has led to criticism from some quarters. Critics have argued that EC aid focuses insufficiently on providing assistance to the poorest countries, and that assistance is based on geographical proximity and foreign policy interests, not poverty reduction. On the other hand, even the most outspoken critics seem to agree that the EC’s bias towards middle-income countries in its aid allocation may be sensible, given that, among other things, ‘the member states may regard the Commission’s development spending as a convenient way to delegate their development co-operation with the EU’s neighbouring regions’ (Open Europe, 2007). For example, DFID’s 2006 White Paper argues that ‘the UK will work with the EU as the main partner for our development aims in the “Accession” and “Neighbourhood” countries, and as an important partner to further development objectives in middle-income countries’ (page 116).

Figure 3: EC and EU bilateral aid volumes disbursed in 2005 by donor (% GNI)



Note: EC figure (0.07%) calculated by dividing EC multilateral aid by EU member states’ GNI. All EU aid (i.e. EC plus bilateral disbursements) makes up 0.36% of EU GNI.

Source: OECD DAC database and World Bank.

2.2 The aid effectiveness agenda within the EU: reforms to the EC and broader EU efforts to promote aid effectiveness

Despite the fact that the EU is such a central player in the international aid system, for a long time, there was a widespread perception that this position has not translated into effective leadership (see the Hutchinson report, for example). Over the past few years, since the EP’s serious push for reform in 1999, the EU has made an active commitment to improving the ways in which it operates and has become an important participant in the development of the international agenda to make aid more effective, especially at the level of policy formulation.

The discussion below is divided into two subsections. The first addresses a broad set of initiatives that the EU as a whole has undertaken to make aid more effective. The second looks at reforms undertaken within the EC itself to turn itself into a more effective international cooperation organisation.

Broad EU efforts on aid effectiveness

In preparation for the Monterrey Conference on Financing for Development in 2002, the Council of the EU agreed in Barcelona in March of that year to take concrete steps in the area of coordination of policies and harmonisation of procedures before 2004. This commitment was reinforced through the insertion of a similar commitment into the Monterrey Consensus. In response to this political commitment, EU member states decided in June 2002 to ask the EC to launch pilot initiatives in four countries: Morocco, Nicaragua, Mozambique and Vietnam.

The EU used the experience gained through these pilot initiatives to frame the European Union Action Plan for Co-ordination and Harmonisation. This was presented to the Paris High Level Forum (HLF) on Aid Effectiveness in February/March 2005. The EU actively participated in the Paris HLF and signed the PD. Subsequently, in December 2005, the EC, the Council and the EP jointly approved the European Consensus on Development, which replaced the 2000 development policy statement.

The Consensus is the first such policy document to provide both member states' bilateral efforts and the EC with a common vision of values, objectives, principles and means to development. The document aspires to provide a focus for the EU's 25 bilateral aid programmes and for the activities of the EC. It is also important for EU development policy in that a number of new member states are in the process of formulating their development policies (one of the requirements of EU accession, since development policy is part of the 'common achievements' of the EU). The Consensus reaffirms the commitment made by EU member states in May 2005 to increase finance for development assistance and reach the 0.7% of GDP for international assistance by 2015 for 'old' EU member states. The statement on 'Delivering More and Better Aid' emphasises the importance of aid effectiveness (Council of the European Union, 2005).

Going beyond the commitments made in the PD, the European Consensus on Development commits EU member states and the EC to ensuring that:

- All capacity building support be provided through coordinated programmes with an increasing use of multi-donor arrangements;
- 50% of donor assistance be channelled through government systems;
- No new project management units (PMUs) be established;
- The number of uncoordinated missions be reduced by 50%.

Following on from the European Consensus on Development, the EC adopted an 'aid effectiveness package' in March 2006 to translate EU commitments to scale up its development cooperation (more, better delivered and more effective aid) into action. Among other things, this package proposes a joint EU framework for the programming of development aid in order to improve its effectiveness. As discussed in Box 1, the EP's Development Committee prepared the Hutchinson Report in September 2006 to build on these issues.

Box 1: The EP and aid effectiveness: the Hutchinson Report

The EP's Committee on Development is mandated to actively monitor the implementation of development cooperation by the EC. In September 2006, Alain Hutchinson, MEP, prepared a report on 'More and Better Cooperation: the 2006 EU Aid Effectiveness Package', based on three previous communications on aid effectiveness.¹⁰ The EP adopted a resolution based on his report. The Hutchinson Report focuses on issues concerning the improvement of the delivery of European aid to developing countries, so as to enable progress in achieving the MDGs. The report expresses concern about several aspects of EC and EU bilateral members' aid:

'a large proportion of the aid granted by all the EU Member States does not actually reach the people of southern countries for whom it is intended because the aid actually paid is less than what was promised, because planning or distribution proves inadequate, because of excessive administrative costs or because money is diverted owing to corruption. All this raises serious questions regarding the manner in which we cooperate and should prompt us to look very closely at other fundamental issues such as the transaction costs imposed on countries in receipt of EU aid, the coordination of the Union's various cooperation programmes, the harmonisation of aid procedures and systems,

¹⁰ These include: 'Delivering More, Faster and Better', which presents a concrete action plan; 'Joint Multi-annual Programming', which represents one of the first concrete deliverables of the action plan and proposes a joint EU framework for the programming of development aid; and 'Financing for Development and Aid Effectiveness', which monitors the EU's performance against its commitments, in terms of volume of aid and in terms of the effectiveness of its delivery.

complementarity between the different measures, consistency between the European Union's policies, the untying of development aid for the benefit of local producers and southern populations, joint programming and time frames.'

The report therefore stresses the importance of embracing the Paris agenda and making EC aid more responsive and better tailored to the needs of developing countries, more aligned with national strategies, institutions and procedures of beneficiary countries, and more harmonised with activities of other donors. In addition, the report emphasises the need to honour the commitment to meet the collective target of at least 0.7% of the GNP of all member states and the EU. It also highlights that the issue of whether, in connection with development-related matters, the EC development assistance should be considered a then-26th (and now 28th) programme, alongside – and ideally complementing – EU member state programmes, or a coordinating body of these bilateral programmes still needs to be resolved. Current tendencies are supporting both possible tendencies; a mixture might be the most likely scenario.

The European Consensus implicitly makes the the EC an all-encompassing aid donor, given the comprehensive list of possible areas where the EC can be active. The EC is thus more than a niche player complementary to the member states' aid programmes, yet limits itself to a maximum of two or three areas of activity per country. The Hutchinson Report stressed that 'better coordination should go hand-in-hand with greater complementarity of action involving a better division of work between the Member States themselves and between Member States and the Commission' (EP, 2006a).

In May 2007, the Council approved the EU Code of Conduct on Complementarity and Division of Labour in Development Policy, and member states and the EC committed themselves to implementing this. The Code is intended to be voluntary and should be implemented with a flexible approach that takes into account the specific situation of partner countries. It contains 11 guiding principles for a better division of labour among EU donors and for a global and more even presence of the EU in developing countries. The implications of the Code could be far-reaching. Among other things, the Code suggests that all EU donors should restrict themselves to a maximum of three sectors per country and either redeploy out of other sectors or work as a silent partner, allowing another EU donor to take the lead. A further constraint is that there should be only three to five donors per sector (although the Code does not say whether this means all donors or only EU donors). As stated in the discussion on harmonisation above, the EU is well placed to act as a leader and coordinating body in the area of division of labour, given its unique position in the aid system (Mürle, 2007). This is a point that is also emphasised in the Hutchinson Report.

Reforms of the EC

In an attempt to fulfil some of the broader EU commitments on aid effectiveness outlined above, since the late 1990s the EC has undergone significant reform and has introduced a number of new planning documents in international cooperation. Some of the most important innovations include the establishment of the EuropeAid office as the single implementing agency to handle EC foreign assistance; the introduction of country strategy papers (CSPs) as part of a greater focus on results rather than inputs; the elaboration of policy documents on specific sectors (often in the form of EC communications); and an overarching EC Development Policy Statement in November 2000 which prioritised poverty reduction in development policy.¹¹ Another important element of the reform process has been the emphasis on 'deconcentration' since 2001, shifting responsibility for the management and programming of development funds from EC headquarters in Brussels to delegations in partner countries. The expectation is that such deconcentration will improve the responsiveness of EC assistance to particular country needs and will speed up implementation, thereby making aid more effective.

The EC has also undertaken more recent reforms in the context of the Financial Perspectives 2007-2013 in an attempt to simplify a system of relatively complex and burdensome structures, and thereby facilitate coherence and consistency (EP and Council, 2006). The number of thematic instruments, which has grown over time in an often unorganised and *ad hoc* manner, has been reduced to six in total. There are now three financial instruments which have a geographical coverage to implement particular policies. These include the Instrument for Pre-accession Assistance (IPA), the European Neighbourhood and Partnership Instrument (ENPI), and the Development Cooperation and Economic Cooperation Instrument (DCI). These have

¹¹ Also in 2000, the Lomé Convention was replaced by the CPA. Cotonou was ratified in 2003 and brought about a change in the basic document for cooperation between the EU and ACP countries. Other high-level documents that have recently been formulated include the European Security Strategy (2003) and the EU Africa Strategy (2005).

replaced the old instruments, including ALA (Asia and Latin America), TACIS (Technical Assistance to Commonwealth of Independent States), and MEDA (the Euro-Mediterranean Partnership). The other three financial instruments are designed as horizontal mechanisms to respond to particular needs (humanitarian aid instrument, stability instrument, instrument for macro-financial assistance). Their aim should be to ‘provide distinctive added value and complement programmes of a geographic nature, which constitute the main framework for Community cooperation with third countries’ (EP and Council, 2006). In addition to these lines, a number of thematic programmes are not country specific and often have different management arrangements. Thematic programmes support actions in the areas of human and social development (investing in people), environment and sustainable management of natural resources, non-state actors and local authorities, food security and migration and asylum (EP and Council, 2006).

Beyond these budgetary sources, support to ACP countries continues to be provided through the EDF, and the basic framework for relations between ACP countries and the EC and EU member states is defined by the CPA. Despite repeated demands by the EP and COM for ‘budgetisation’ of the EDF (i.e. its integration into the general EU budget), the EDF itself is not subject to decision making or effective scrutiny from supranational bodies of the EU (with the notable exception of the European Court of Auditors). There was an expectation that this ‘budgetisation’ would happen with the Financial Perspectives 2007-2013, but the issue remains unresolved due to some Member States’ objections.

For funds administered by the Commission, EuropeAid is exploring *Results-Oriented Monitoring* (ROM) since 2000/01 and is practising it in all regions since 2002. Results are covering various aspects, including a specific understanding of project/programme effectiveness, in addition to relevance, efficiency, impact and sustainability. Effectiveness is understood as „actual benefits registered with the people concerned“ (EU Commission 2004: 63). Results of these commissioned evaluations can be found in the Commission’s annual report on external assistance; overall, the assessments result in good marks, particularly in the area of *effectiveness*:

‘Projects and programmes monitored in 2004 performed on average ‘according to plan’ or better, for all criteria. The best performing criteria are effectiveness (2.72) and impact (2.73), whereas efficiency (2.61) is ‘better than according to plan’ but remains relatively the weakest. [...] It is to be noted that the hypothetical middle line – a numerical value of 2.5 – indicates ‘on track’, thus a project with a score of 2.5 follows the programmed course and performs well’ (EU Commission 2005: 124).

Two percent of all projects are identified to have „major problems“ (i.e. have received the worst score in three of the five criteria) and one tenth has a negative score in at least one category. (EU Kommission 2005: 124). The scoring is undertaken exemplarily for a sample of thematic and geographic programmes. According to this understanding of effectiveness, particularly effective projects/programmes can be found in Latin America (score of 2.90) and the Mediterranean (2.80) as well as Eastern Europe and Central Asia (2.78). Least effective programmes/projects are to be found in the ACP countries (score of 2.55) and the Balkans (2.61), while Asia meets the average score (2.72) (EU Commission 2005: 126). Underlying understanding of results shape the outcome of this scoring exercise – and larger caveats have to be taken into consideration. These figures do not include general budget support and *sector-wide approaches*. Thus, big sums – and key areas with an understanding of aid effectiveness according to the Paris Declaration – are not covered. The particularly bad scoring of the least developed countries (in the ACP) could also be indicating to capacity problems in these countries.

2.3 EC aid and good governance

EC cooperation also accords considerable importance to ‘good governance’, understood to encompass transparency, accountability, predictable regulatory, legal and institutional structures and other characteristics of a democratic system more broadly, as necessary ingredients in promoting development. Governance and institutional capacity building is one of the focal sectors of EC development cooperation and forms an integral part of the 2005 European Consensus on Development. The concept of country ownership, which is one of the cornerstones of the PD, depends on such a framework of good governance to be genuinely national in scope and not just governmental. However, the Paris framework does not provide guidance as to *how* legitimate, broad-based and inclusive ownership is meant to be built. The Hutchinson Report (see Box 1) therefore stresses that the principles of aid effectiveness embraced in the PD need to be

accompanied/complemented by efforts aimed at improving governance, combating corruption and strengthening development capacity in partner countries (see the Hutchinson Report – EP, 2006a– and report follow-up – EC, 2006b, among others).

A growing, if controversial, body of evidence suggests that countries with better governance indicators are likely to use the aid they receive more effectively, which would imply that donors should channel their resources towards these countries (see, e.g., Kaufmann et al., 2004). Also, studies suggest that traditional conditionalities to punish bad performers are not effective (see, among others, Lockwood 2005 and Killick 2004). The European Commission in August 2007 has thus suggested a governance initiative (with an overall volume of 3 bn E) that operates with incentive tranches, i.e. additional funding for improved performance among ACP countries. However, it is often the countries with relatively weak/poor governance structures that are in most need of international assistance. The challenge for donors is how to support these countries.

Not surprisingly, the vast majority of countries in which the EC operates have relatively poor governance. The logic of these disbursements seems to be that countries with poor governance need the support of the international community to improve their indicators – so it is important to take into account where the partner country is starting from and help it move upwards from that point. As stated in the Hutchinson Report:

With a view to ensuring that the aid granted is allocated in the best possible manner, the beneficiary countries must, naturally, be able to demonstrate that they have reliable mechanisms and democratic structures - in short, the good governance required in order to manage such financial support. But this in itself requires support (for example, in action against corruption) and applies to all involved (mutual accountability), including donor countries.

The EC relies to varying degrees on the use of certain aid modalities, such as GBS or programme-based (sector) approaches, to support governance capacities and institution building. These modalities also provide a tool for political dialogue. By using such modalities, donors also aim to increase their reliance on national systems and to strengthen them. The EP has expressed concern about the EU's growing use of the conditionalities of international financial institutions to make decisions regarding its budget support policy, because this goes counter to the principle of country ownership. The COM, however, has maintained that the EP's concern is 'unfounded', arguing that 'budget support cannot be granted if there is a lack of transparency, if budgets are not in balance, or if there is no prospect of an improvement in budget management' (see the Hutchinson Report – EP, 2006a – and the report's follow-up – EP, 2006b).

According to the EC's annual report on external assistance of 2006, nearly 20% of all aid commitments were made in the form of budget support in 2005. The European Consensus expresses the need to use the modality of budget support "wherever possible". Inter alia, the CPA provides principles for EC budget support.¹² These agreement provisions deal with the eligibility conditions for budget support, including sufficient transparency, accountability and effectiveness of public expenditure management as well as procurement institutions, and a sound framework of macroeconomic and sectoral policies. Beyond these provisions, the Cotonou Agreement also provides for suspension in cases of serious breaches of the essential and fundamental elements of the Agreement (Art. 9).¹³ (The case study on Mozambique– a good albeit not unproblematic example - illustrates EC policy and political dialogue in the context of GBS and other mechanisms like the performance assessment framework).

¹² Article 61 'Nature of Financing', para. 2 gives explicit conditions for budgetary assistance. Also of relevance is Article 67 'Structural Adjustment Support', para. 4.

¹³ For a more detailed analysis of EC budget support in ACP countries, see Grimm (2006a).

CHAPTER 3

RATIONALE FOR SELECTING THE THREE CASE STUDIES: CAMBODIA, MOZAMBIQUE AND PERU

As part of this project, the ODI team submitted a methodology paper to the Committee on Development to select the three country cases for this study (see Annex 1). The paper begins by providing an analysis of EC aid along a number of dimensions, including geographic distribution, weight of recipient country population, recipient income bracket, recipient conflict status, recipient governance measures and humanitarian assistance. Based on the analysis, the paper then divides recipient countries into three categories that illustrate the three broad contexts within which the EC operates, and it lists the top 20 countries in each of the categories. The categories include:

- **Fragile states:** countries selected on the basis of having had ‘fragile state’ (formerly LICUS) status (severe, core or marginal) in one of the past four years;
- **Aid-dependent states:** countries selected on the basis of low-income status (based on GNI per capita in 2005) with no fragile/LICUS status in the past four years *and* total aid receipts (from all donors) in 2005 greater than 2% of GD; and
- **Lower middle-income (LMI) states:** countries selected on the basis of lower middle-income status (based on GNI per capita in 2005) and no ‘fragile state’ (formerly LICUS) status (severe, core or marginal) in the past four years.

From that long list of 60 countries, the paper then provides a short list of three countries that in our view were the best suited to serve as case studies for this project. To draw this short list, we relied on several criteria intended to allow us to identify the optimal case study candidates based on diversity, interest in terms of EU aid effectiveness, and resources at hand to carry out the case studies. More specifically, we relied on the following criteria:

- The desire of the EP CD to have a case each from Africa, Asia and Latin America;
- Diversity in terms of including one fragile, one aid dependent and one LMI state;
- Countries not dominated by humanitarian assistance (following the mandate of the CD to focus on development cooperation);
- Significance/presence of EU donors;
- Practicality and feasibility of the case studies so as to maximise ODI’s experience given limited resources and time.

Based on these criteria, we selected the three case studies for this project, drawing one country from each of the three categories above. Thus the final list:

- **Cambodia (fragile):** A large number of fragile states are also experiencing ongoing conflict. In many contexts, this results in a significant humanitarian spend. For the purposes of this study, we argued that the analysis of EC aid effectiveness in a fragile state context would be strengthened by selecting a case study in which the large majority of EC expenditure is development assistance, not humanitarian aid. We also recommended that the selection of the fragile states case study be limited to those countries classified as severe or core, rather than marginal, according to World Bank Country Performance and Institutional Assessment (CPIA) indicators. Cambodia emerged as the most appropriate case study in this category.
- **Mozambique (aid dependent):** Mozambique is the largest recipient of EC aid net of humanitarian assistance in the aid-dependent category, and it also receives large volumes of overall EU aid, making it an ideal candidate for the case study.
- **Peru (lower middle-income):** Peru is the largest recipient of EC aid in Latin America under the lower middle-income category. In addition, there are a large number of EU bilateral agencies involved in the country (17). Because Peru has been in the midst of a significant political and economic transformation over the past decade, it offers a compelling opportunity to analyse the effectiveness of donor efforts to promote country ownership and good governance reforms, and to explore the implications of the Paris Agenda on harmonisation and alignment.

Once the selection of countries was made, the ODI team developed a methodology outlining a series of key themes and questions to provide guidance to the researchers carrying out the three case studies for this project, while also giving enough flexibility and space to tailor the fieldwork to the country context. This methodology is included in Annex 2.

The case studies are based on interviews with key stakeholders in the field (including EC delegation staff, EU bilateral donors, multilateral donors, government representatives and, where possible, civil society actors) as well as a desk-based review of key documents (such as evaluations, country reports, surveys, etc). It is essential to emphasise, however, that the country studies aim to provide a bird's eye overview of a vast area: the effectiveness of EC aid to Cambodia, Mozambique and Peru. Given the short time and limited resources available to undertake this project as a whole, the case studies seek to identify broad trends. They should therefore not be considered formal 'evaluations'. Indeed, to provide a sense of perspective, a full EC internal evaluation exercise overlapped with the fieldwork for the Mozambique study, and this evaluation required around 60 person-days of fieldwork; 10 were available for each of the country cases for this project commissioned by the EP. As such, these three case studies seek to provide an impressionistic overview of EC aid, with an emphasis on the effectiveness of EC aid within the framework outlined in the PD (including ownership, harmonisation and alignment efforts, and issues of internal coherence within EC aid).

The case studies are presented in the following three chapters of this report. The final chapter, Chapter 8, draws out some of the main challenges and lessons emerging from a comparative analysis of the case studies.

CHAPTER 4

EFFORTS TOWARDS ENHANCED EC AID EFFECTIVENESS IN CAMBODIA

4.1 Background: country context and aid context

Political and governance issues

Cambodia is still recovering from a long period of conflict and instability. Subjected to US bombing during the Vietnam War, brutal rule under the Khmer Rouge from 1975-9 and, subsequently, more than a decade of civil war, Cambodia did not have a formal end to conflict until 1991 when the Paris Peace Agreement was signed and a UN peacekeeping operation (United Nations Transitional Authority in Cambodia – UNTAC) was established. Although a number of democratic elections have been held since 1991, political instability persisted until relatively recently, with fighting between the two main political parties (Cambodia People’s Party – CPP – and FUNCINPEC) preceding the 1998 election and a year-long political stalemate following the 2003 elections owing to CPP difficulties in forming a new coalition government. During recent years, political stability and security has improved. However, the long period of conflict in Cambodia has had a substantial impact on governance; many governance institutions have been destroyed, resulting in the loss of many of the country’s best trained citizens. Today, at least half of Cambodia’s population (13 million) is under the age of 16 (OED/World Bank, 2004).

The World Bank classifies Cambodia as a ‘core’ fragile state (as compared with ‘severe’ or ‘marginal’). This is based on Cambodia’s overall and governance score on the CPIA, which rates countries against a set of 16 criteria grouped in four clusters: i) economic management; ii) structural policies; iii) policies for social inclusion and equity; and iv) public sector management and institutions.¹⁴ CPIA assessments show gradual improvements in certain elements of governance in Cambodia in recent years, including in the quality of budgetary and financial management. However, despite these small shifts, Cambodia continues to rank very low on all six dimensions of governance in the CPIA with significant concerns relating to the quality of the public administration and the degree of transparency and corruption. These elements are critical to donor confidence in use of country systems and the extent to which ministries are able to link policy priorities and resource allocation which, in turn, impacts on the potential for development partners to align behind government development objectives. (World Bank, 2007a)

Economic development

Despite these impediments, Cambodia has had more than a decade of high growth with annual GDP growth averaged at 8.4% per annum over 1994-2006. The World Bank (2007b) reports that ‘during 2004-2006, Cambodia grew at double digit rates, averaging 11.4 percent per annum for three consecutive years’ (p.1). This growth was driven by garment exports, tourism, construction and agricultural expansion (World Bank, 2007b). This substantial economic growth has led to significant progress on poverty reduction with estimates indicating a decline in poverty levels from 47% to 35% during the last decade (IMF, 2006). It has however, also led to an increase in inequality over the last decade. Living standards have risen by just 8% for the poorest fifth of the population and as high as 45% for the richest fifth (World Bank, 2007a). This increasing inequality is most marked at the beginning of the time period (1993/4-1997) and in rural areas. From 1997-2004 inequality remained largely stable in rural areas. Inequality in urban areas changed little over the decade (World Bank, 2007b, p. iv-v).

Poverty and social indicators

Although Cambodia has benefited from strong growth in recent years, it remains one of the poorest countries in the world. Using UNDP’s Human Poverty Index (HPI), Cambodia ranks 81st out of 103 developing countries and is rated as the worst performer in East Asia and the Pacific. Life expectancy is 54 years and the rate of secondary school enrolment is only 14% (UNDP, 2005). However, improvements in health outcomes

¹⁴ <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTDATASTA/0,,contentMDK:21115900~menuPK:2935553~pagePK:64168445~piPK:64168309~theSitePK:2875751,00.html>.

are now becoming evident. Infant mortality has fallen from 95 per 1,000 live births in 2000 to 66 in 2005; child (under 5) mortality decreased from 124 deaths per 1,000 live births in 2000 to 83 in 2005 (World Bank, 2007b).

Medium-term planning and budgeting

The National Strategic Development Plan (NSDP) 2006-10 is the key overarching development strategy for the Royal Government of Cambodia (RGC) and serves as its poverty reduction strategy. It is underpinned by the government's Rectangular Strategy for Growth, Employment, Equity and Efficiency adopted in 2004. The NSDP includes concrete goals, targets, strategies and actions and outlines links between these and patterns of public expenditure. But the NSDP is 'more indicative than specific when it comes to spending priorities' (IMF, 2006: 3). Sectoral strategies and sub-national plans are to provide more specific details within the NSDP framework. These have been developed for a number of sectors (education, health, HIV/AIDS, fisheries, agriculture, nutrition, governance, legal and judicial reform and decentralisation), with work underway in other sectors (OECD DAC, 2007a).

Box 2: Summary of strengths and weaknesses of the NSDP development process

Cambodia's NSDP 2006-10 was finalised in January 2006 and approved by the National Assembly in May 2006. As Cambodia's poverty reduction strategy, the NSDP replaces previous medium-term strategies and incorporates long-term targets already established in the Cambodian MDGs (CMDGs), first formulated in 2003 and updated in 2005.

The NSDP constitutes a significant step forward in government ownership diagnostics and results framework. There is now just one national strategy rather than two or three. Although preparation was less participatory than for previous strategies, it was also less donor-driven, resulting in more pronounced ownership by the government.

Knowledge and ownership of the commitments in the NSDP vary considerably across ministries and between levels of government. Although several rounds of consultation occurred within government, cooperation between the Ministry of Planning and other ministries was sometimes inefficient. The Technical Working Groups – the fora for sector-level government-donor-civil society policy dialogue and coordination – were marginalised until a late stage. The NSDP preparation process would have benefited from more substantive and consistent engagement of the Ministry of Economy and Finance.

To succeed in directing public resources to strategic priorities for poverty reduction, the NSDP depends upon improvements to the annual process for preparing and implementing the three-year rolling public investment program (PIP). In recent years, the PIP has not been an effective tool for prioritisation. Dialogue between the Ministry of Planning and the Ministry of Economy and Finance has been weak and the list of projects poorly appraised and unprioritised.

Civil society participation was the weakest point in the NSDP formulation process. Increasing civil society awareness of the NSDP will improve the prospects for successful implementation. NGOs should also be involved as channels for feedback on grassroots perspectives of implementation and results. Improving participation, transparency and accountability in policymaking and public financial management is particularly important if, as expected, substantial revenues begin to flow from offshore oil and gas towards the end of the NSDP period.

Source: IMF (2006).

The recent World Bank aid effectiveness country review highlighted the need for much stronger alignment of the annual budget, the PIP and the medium-term expenditure framework (MTEF) with medium-term strategic priorities (IDA/IFC, 2006). A constraint to full synchronisation of planning and budgeting documents is the lack of coordination among government ministries. The IMF (2006) assessment states that in the past, the PIP has not been an effective tool for prioritisation. Dialogue between the Ministry of Planning and the Ministry of Economy and Finance is poor and project appraisals have not been comprehensively reviewed or prioritised. The list of projects therefore does not reflect resource availability and has had little impact on public expenditure (IMF, 2006). The Public Financial Management Reform Programme (PFMRP) supported by a number of donors (and discussed below) is seeking to address this and enhance the credibility of the budget (OECD DAC, 2007a). Joint monitoring indicators (JMIs) have been agreed between the RGC and development partners and are based on the NSDP and recommendations from the TWGs. These were first agreed in 2004 and have been updated annually, providing a series of benchmarks for expected progress over the year in relation to key institutional and policy reforms. They are action-oriented in order to enable the achievement of the NSDP (ODI, 2007).

Overall levels of aid, aid dependence and types of aid received

In 2005, net ODA to Cambodia was US\$470 million, which amounts to 8% of GDP (OECD DAC, 2007a). Development assistance continues to play a dominant role in financing poverty reduction in Cambodia. For example, the NSDP estimates that total funding requirements are approximately US\$700m per year over the next five years. The RGC's 'Aid Effectiveness Report' (AER) provisionally estimates that contributions reported by development partners in 2006 amount to US\$594.8m. This amount includes core funds from NGO partners as well as ODA (CRDB/CDC, 2007). Currently, Cambodia has more than 30 development partners, with low concentration and high fragmentation. In 2005, development assistance provided by these was disbursed through more than 530 projects spread across 20 different sectors (CRDB/CDC, 2007).

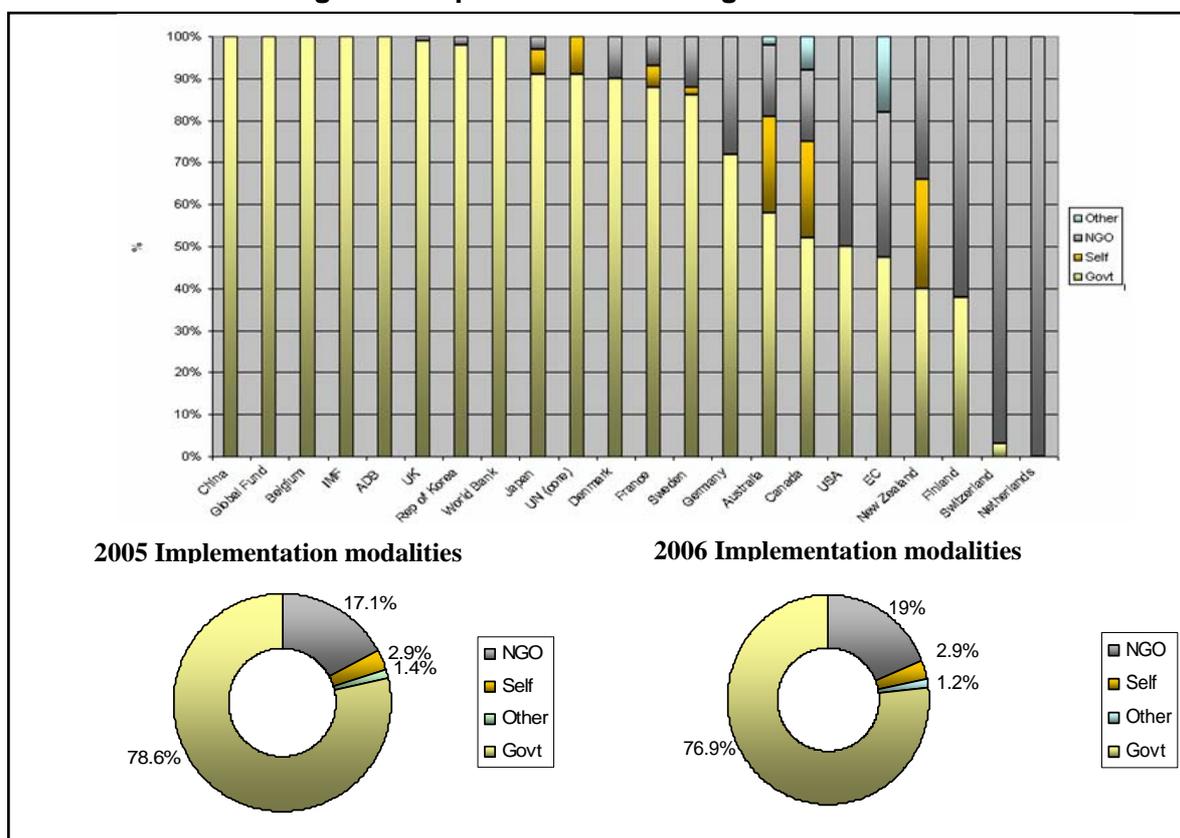
Table 1: Development assistance: indicators of transaction costs

	1996	2006
ODA receipts (US\$m)	518.1	594.8
Number of development partners	44	32
Share of ODA (five largest donors)	60%	52.9%
Number of projects ongoing	283	574

Source: CRDB/CDC (2007).

A recent study by ODI notes that around 800 foreign consultants provide technical assistance in Cambodia, and there are 100 parallel PIUs. There are also 1,600 separate bank accounts for processing foreign aid, about 250 of which were generated in late 2005/early 2006 (Coyle and Kong, 2006). The AER raises concerns about potential consequences of fragmentation, quoting the 2004 OECD DAC 'Survey on Harmonisation and Alignment' which found that, in such an environment, each partner, in an attempt not to be marginalised or lose profile, is inclined to participate in every decision and to join every policy dialogue, resulting in a significant escalation in transactions costs for both development partners and government' (CRDB/CDC, 2007). Transaction costs for government are clearly higher for certain implementation modalities, as is the potential for alignment and country ownership. Figure 4 summarises implementation modalities in 2005 and 2006 and highlights donors' allocations to government versus non-government.

Figure 4: Implementation arrangements 2006



Source: CRDB/CDC (2007).

Figure 4 shows that, in both 2005 and 2006, more than three-quarters of development assistance was implemented by government. However, only 1.1% and 2.5% (provisional figure) respectively were provided as budgetary aid/balance of payments support. Most development assistance in both years is provided as technical cooperation (at 47.1% in 2005 and 46.1% in 2006 – provisional figure) (CRDB/CDC, 2007).¹⁵

The nature of development cooperation in Cambodia clearly calls for significant investment in improved aid effectiveness and coordination. This has been a high priority for the RGC and donors alike, and significant investments have been made in progressing the elements of the PD. The following section provides an overview of the wide range of aid effectiveness initiatives undertaken in Cambodia in recent years.

4.2 Overview of progress on aid effectiveness and key issues

A number of significant studies on aid effectiveness in Cambodia have been carried out over the past two years. In late 2005, The Asia Foundation conducted a review of stakeholder perceptions of aid effectiveness and aid coordination in Cambodia (Blunt and Moul Samneang, 2005). Cambodia was one of the countries included in the survey of the PD and a country report was completed (OECD DAC, 2007a). This involved significant effort on the side of both government and donors to agree on terminology and gather data for the questionnaire. The World Bank has completed an aid effectiveness profile for Cambodia as part of its Aid Effectiveness Review (IDA/IFC, 2006). The World Bank also commissioned a study on its incentives for harmonisation and alignment. This was undertaken by ODI and included a case study on Cambodia (Coyle and Kong, 2006). Finally, the Cambodian Rehabilitation and Development Board (CRDB) and Council for the Development of Cambodia (CDC) recently published its AER for 2007.¹⁶ This section is based on a desk analysis of these key studies, supplemented by interviews conducted during the field visit.

A number of the earlier reviews have commented on the sophistication and ‘necessarily complex and formal system’ that the RGC has established for coordinating development assistance and relating to partners on policy issues (ODI, 2007; Blunt and Moul Samneang, 2005). A detailed discussion of the forums, policy and guidance notes developed in Cambodia relevant to aid effectiveness can be found in the RGC’s CRDB/CDC Strategic Framework for Development Cooperation (2006) and the World Bank’s Aid Effectiveness Review (IDA/IFC, 2006). A summary of key elements is provided in Box 3 below.

Box 3: Summary of key forums and documents

CRDB and CDC: established December 2005 as the focal point within RGC for ODA. The CRDB/CDC has responsibility for coordinating ODA with all development partners and coordination with and between RGB initiatives and agencies on aid allocation and utilisation issues (RGC, 2006b).

TWGs: 18 TWGs have been established, each co-chaired by the government and a lead development partner. TWGs aim is to strengthen cooperation between government and partners and facilitate technical level dialogue.

Government-Donors Coordination Committee (GDCC): established to coordinate TWGs and to provide policy guidance and priority setting. Reviews progress against the targets of the JMIs on a quarterly basis.

Strategic Framework for Development Cooperation: Adopted in January 2006 by the RGC, this strategic policy framework documents institutional and operational issues relating to development cooperation management.

Declaration on Aid Effectiveness/Cambodian Harmonisation, Action and Results (H-A-R) Action Plan for 2006-10: Signed by all major OECD DAC donors in October 2006, this includes results, actions, responsible entities, milestones and timing for each element of the PD. Progress is assessed in CRDB/CDC annual reports.

¹⁵ During field interviews, a number of development partners commented that there was a difference both among donors and, at times, between donors and government, regarding the interpretation of definitions and questionnaires for the PD Survey, despite significant discussions and advice on definitions. A number of interviewees commented that certain donors had chosen interpretations that would reflect on their assistance most favourably. It is important to note that a number of donors perceived the CDC’s definition of technical cooperation as too broad.

¹⁶ The AER for 2007 is a significant accomplishment and makes a valuable contribution to the information available on aid effectiveness in Cambodia. A number of donors however, expressed concern regarding the accuracy of some of the data. Clearly the CDC are dependent on the information they have provided to them by development partners and improvements in reporting and the data provided will further strengthen the analysis over time.

Cambodia Development Cooperation Forum (CDCF): In June 2007, the first CDCF was held. The CDCF replaces the Consultative Group meetings and aims to provide a high-level policy forum for government, donors and civil society. The CDCF will be chaired by government.

Country ownership

The RGC has taken significant steps towards strengthening the degree of ownership of development cooperation. While harmonisation and alignment are rated as low in the recent survey monitoring the PD, a 'moderate' baseline is established for the dimension relating to ownership. This is reflective of the strong and active role played by certain parts of the RGC in establishing mechanisms to strengthen coordination and leadership. The establishment of the TWGs and the GDCC are an example of such initiatives and are significant forums through which ownership can be promoted. However, a critical constraint to true ownership continues to be the level of consistency across government. As found by the ODI study 'the RGC has begun to send stronger signals to the donor community about the way it expects donors to behave, but it is not consistent at the sectoral level and it does not currently send strong messages about aid modalities' (Coyle and Kong, 2006: 5).

This variation in performance and commitment is evident in the quality of the TWGs. While the quality of the TWGs is clearly also dependent on the engagement and commitment of development partners, government has a critical role in establishing the culture and practice of TWGs and the significance of the issues they consider. The education, health and partnership and harmonisation TWGs were cited as positive examples by a number of interviewees of the positive role the TWGs can play. However, even with a high level of government commitment and knowledge, the extent to which TWGs can contribute to promoting country ownership is constrained to some extent by their nature. For example, most of the TWGs are conducted in English, which limits government involvement to those staff comfortable working in this language. Secondly, meetings of the TWGs can often involve over 100 people, impacting on efficiency and quality of dialogue. While the sub-sectoral working groups may be more efficient, these working groups are limited to donor representatives (ODI, 2007). While recognising the importance of donor-specific working groups, donors will need to guard against reserving discussions of 'real business' for those forums in which government does not participate. The improvement in the quality of those TWGs currently performing poorly will be the most effective way to ensure against this.

The consistency in government positions and practice was also raised as an issue with regard to the GDCC during the field visit. As the key body for policy dialogue and guidance, the GDCC has the potential to provide an opportunity for significant debate and country leadership. Interviewees expressed contradictory views about the quality of the GDCC, with some expressing concern the scope of its focus might be narrowing. These comments were based on a perception that the RGC are deferring consideration of contentious issues from GDCC discussions. Others, including the EC Delegation, did not agree and perceived the GDCC to be used as an effective forum for discussion of contentious issues. Lastly, consistency and cooperation across government is also critical in relation to aid modalities. Previous studies have found that some ministries have a strong preference for assistance to be delivered through projects and that competition between ministries is undermining cross-government coordination (Blunt and Moul Samneang, 2005). This inconsistency has implications for country ownership, alignment and harmonisation.

Alignment

According to the CRDB/CDC AER (2007), development assistance is relatively well aligned with NSDP priorities. However, the CRDB/CDC's analysis identified a significant difference between the degree of alignment of commitments as compared with disbursements, particularly in relation to sectoral allocations and priorities. Although the NSDP provides an important framework for development cooperation and government programmes, it is not sufficiently prioritised and detailed to guide donors' prioritisation processes effectively. This was noted by a number of interviewees – both government and development partners – with one donor representative commenting that 'the NSDP is so broad it would be difficult not to be aligned with it'. As outlined previously, the weak linkages between resource allocation and policy priorities is a further impediment to effective alignment. Sector-wide policy frameworks have also been established in education, health and public financial management with efforts to strengthen policy alignment being a significant feature in these sectors in recent years.

However, the OECD PD Survey's assessment was that little aid in Cambodia was provided in the form of programme-based approaches (OECD DAC, 2007a). While regular reference is made to sector-wide approaches (SWAs) in a number of sectors, in many instances these are highly limited examples. Even though assistance may be aligned with a sector programme, the 'benefits of a programmatic approach remain elusive' (CRDB/CDC, 2007: 34), owing to the fact that the sector is still largely characterised by individually implemented projects.

Alignment at the systems level is also somewhat constrained by inadequate systems and widespread corruption (ODI, 2007; OECD DAC, 2007a). The PD Survey's analysis of development assistance to the government sector found that 17% of this aid uses the country's budget execution systems and even less relies on national financial reporting and audit systems (the average across the three systems was 10%). Use of country systems for procurement was also very low at 6% (OECD DAC, 2007a). Despite these findings there has been significant discussion in Cambodia between donors and government on the potential to provide a greater percentage of budget support. The World Bank's Poverty Reduction and Growth Operation (PRGO) (2007-9) will provide an opportunity for donors to provide harmonised GBS. Discussions to increase sector budget support in education are also underway. The EC is involved in both these initiatives, which are discussed further below.

An issue requiring further consideration is the place of ODA-funded NGO activities in broader aid effectiveness and alignment discussions. The RGC and donors raised concerns regarding the measures of alignment used for by the OECD PD Survey. They argued that the focus on the percentage of aid on budget was inappropriate for the Cambodian context 'because much useful and well-aligned aid is disbursed to local government and non-governmental organisations – not only through the budget exercise' (OECD DAC, 2007a: 8).¹⁷ However, in interviews conducted as part of this study, government officials raised concerns about the degree of alignment of NGO activities and claimed that donors' consultation on NGO projects (funded with ODA), efforts to align with government priorities, and reporting on NGO activities and expenditure were highly varied. Where consultation and information on NGO activities was poor, government representatives commented that they found it difficult to identify how much was being spent in each sector, and what the true cost of delivery of certain services was.

The PD Survey only focused on and measured aid to the government sector. However, it is important to note that the PD defines alignment as follows: 'Donors base their *overall* support on partner countries' national development strategies' (emphasis added) (OECD DAC, 2005b: 3). Although the rationale for funding of NGO activities in Cambodia is strong, and largely supported by the government, there is still potential for donors to maximise country ownership and alignment. This is particularly important where NGOs are playing a role in service delivery and are filling gaps in government capacity.

Harmonisation

There has been significant effort among donors in Cambodia to work towards common messages and statements on a range of policy and technical issues. This has included preparation of joint statements on sectoral issues to the CDCF and, at times, development of common messages in advance of the GDCC. In a number of sectors, multi-donor trust funds have been established but donor missions remain highly uncoordinated (OECD DAC, 2007a). There has however, been significant progress in harmonisation of joint analysis and planning among small groups of development partners, with two primary examples, summarised in Box 4.

Box 4: Quadripartite partnership: joint analysis and planning

In 2003, the World Bank, ADB and DFID were all planning medium-term strategies. In an effort to promote harmonisation, all three donors agreed to undertake their analysis jointly and undertake a country strategy formulation process in partnership. This resulted in regular meetings between partners, joint consultations with civil society, the private sector and government and allocation of 'lead donor' responsibilities within the group (as a step towards division of labour) and agreement to align behind that donor. In 2004, the UN joined this partnership.

¹⁷ Government intends to make use of its resource mobilisation mechanisms and its ODA database in order to develop its own indicators which monitor the alignment of aid with national priorities.

This initiative has reduced duplication, gaps in sectoral coverage and transaction costs for government, and promoted consistency in messages, objectives and requirements. The World Bank also suggests that the initiative has had an important demonstration effect. That said, all development partners involved believe that their own transaction costs have been as high if not higher, but worthwhile, given the resulting benefits.

In addition to joining the Quadripartite Partnership, the UN has commenced work to improve its own coordination and harmonisation across UN agencies in some issue areas. The UNDAF draws on the joint analysis referred to above and will be the key framework for joint review for the UN as a whole on an annual basis. Support for joint programming initiatives has increased (with provision of guidelines) and a number of joint frameworks produced identifying the range of UN agencies undertaking related work in given sectors. This is seen as a first step towards improved streamlining and harmonisation of UN assistance.

Sources: IDA/IFC (2005); UNCT-Cambodia (2005); interviews.

The investment in the promotion of aid effectiveness principles in the Cambodian context has been significant and has resulted in changes in donor and government behaviour in a number of instances. However, at times, this has led to ‘a degree of coordination fatigue’ and ‘information overload’, with a perception that there has been an increase in transaction costs which may or may not persist in the longer term.

The development of the national H-A-R Plan, and the planned approach to monitoring its implementation, presents a valuable opportunity to assess progress and benefits (or costs) of new ways of working. The improvements to the CDC ODA database, and the inclusion of the capacity to measure progress against aid effectiveness indicators, are particularly positive steps. However, for this information to be valuable and reflective of practice, further work is needed to ensure common interpretations of definitions and questionnaires. This is surprising, given the significant investment already made by the CDC in clarifying terms, and the large number of discussions and substantial effort associated with completion of the PD Survey. However, it was clear from interviews conducted for this study that there continued to be inconsistency in reporting.

The study conducted by The Asia Foundation found that ‘while the notion of “harmonisation” and “alignment” appear to be quite widely understood, the notions of “national ownership”, “managing for results” and “mutual accountability” are not’ (Blunt and Moul Samneang, 2005). There has been significant dialogue on the PD and its meaning since that time but, as with the issue of definitional interpretations, there are indications that this imbalance in understanding or emphasis persists in some quarters. Reducing transaction costs for government appears to be high priority for a number of donors, but at times this could come at the expense of ownership and mutual accountability. When taken to the extreme, such prioritisation could result in reduced consultation with government and a divergence of assistance from the government to the non-government sectors. Clearly, a balanced interpretation of the PD is essential, and a dialogue on the trade-offs between different elements is important.

It was the view of some interviewees that these (and other) issues could be better addressed if a high-level forum specifically focused on aid effectiveness issues was established. The Partnership and Harmonisation TWG terms of reference includes the following: ‘examine and make recommendations on common and/or crosscutting partnership issues’ (CRDB/CDC, 2003). However, it sits at the same level as all other TWGs. A large number of initiatives are therefore taken forward at the sectoral level, which can undermine consistency across government on key technical issues. The value of such a forum would have to be balanced with the number of forums and meetings already in place and the continuing coordination fatigue evident in some quarters.

4.3 European coordination and harmonisation roadmap

In 2005, 15 EU donors were providing bilateral assistance to Cambodia, totalling more than €128m (nine of which were significant donors). Quarterly meetings of EU donors commenced mid-2004 and enabled the production of the annual ‘EU Blue Book’ - *European Union Development Activities in Cambodia* – which provides an overview of the ODA provided to Cambodia by EU Member States and the EC. These meetings also laid the foundation for many of the initiatives in progress today.

The EC, Council and EP's agreement to the Consensus on Development in December 2005, which emphasised the importance of aid effectiveness and committed the EU to playing a key role in implementing PD commitments, was seen by many in Phnom Penh as playing a critical role in triggering agreement to more regular meetings and consultation among European donors. Currently, EU donors meet monthly and, over the past year, have initiated a number of discussions and activities to improve harmonisation. To date, discussions among EU donors have seemingly focused primarily on raising awareness of respective programmes and efforts to develop common policy positions with respect to government-donor dialogue. This has, at times, resulted in joint statements in key meetings, joint responses to RGC proposals and efforts to harmonise pledging statements at the Consultative Group meetings (now the CDCF). This last initiative, however, demonstrates the variability in priority given to harmonisation across member states. Interviewees commented that at the 2006 8th Consultative Group meeting a joint EU pledging statement was made. However, some member states also gave individual pledging statements. Both the RGC and the World Bank country office (responsible for recording the value of total pledges made) commented that the combination of joint and individual pledging created confusion with regard to the overall value of European commitments. The first CDCF meeting took place on 19-20 June 2007. A joint EU pledge was agreed. Prior to the meeting interviewees commented that they were not sure whether certain EU donors would again make an individual pledging statement. However, only one separate European pledge was made – an improvement on the year before.

In December 2006, EU donors agreed to the European Union Roadmap for Increased Aid Effectiveness in Cambodia, in line with the provisions under the Consensus for Roadmaps, outlining how EU donors can contribute to countries' harmonisation objectives. The Roadmap commits EU donors to a range of actions to enhance the effectiveness of aid to Cambodia, namely, through assisting in strengthening country leadership on aid effectiveness and maximising the impact of EU assistance to Cambodia through increased aid effectiveness. The Roadmap also commits member states to the establishment of indicators and targets to monitor progress in implementation.

Work to implement a number of the actions outlined in the Roadmap has already begun. For example, the Roadmap commits EU Member States and the EC to coordinating EU positions and establishing systems of mutual representation with regard to the TWGs. At the time of the field visit conducted for this study, discussions were underway to identify the appropriate EU donor for each TWG. At this stage, there is in principle agreement that all interested EU donors can continue to participate in any TWG but a lead representative should be appointed who is responsible for canvassing views of EU donors prior to the meetings in order to facilitate development of common positions, and reporting back to EU donors on the substance of the meeting. While the exact details of these arrangements are still being discussed, a number of EU donor representatives interviewed commented that this was one of the first signs of a 'pay-off' in terms of workload and transaction costs for donors in relation to aid effectiveness initiatives. To inform appointment of TWG representatives, EU donors have recently developed a matrix outlining the scope of individual donors' engagement in different sub-sectors in Cambodia.

The work to develop this matrix will also contribute to planned discussions on division of labour. While the Roadmap states as an overarching principle that EU development partners will 'exploit their strengths and comparative advantage through a shared approach and shared actions, thus reducing transaction costs' it includes no specific actions relating to the division of labour. However, since its development the European Council has approved the EU Code of Conduct on Complementarity and Division of Labour in Development Policy (15 May 2007).¹⁸ Implementing this EU Code of Conduct will pose significant challenges, especially in a context such as Cambodia, where donor fragmentation, and reliance on project modalities, continues to be high. EU donors in Cambodia are planning a workshop on division of labour for September 2007. During the field visit, we were advised that the EC Delegation would be inviting a broader group of member states to the workshop than is currently providing development assistance to Cambodia. This is an important and positive initiative, as the expansion of the EU, and the requirement for new members to establish development programmes, is likely to see new (and additional) development partners in a range of country contexts. Without careful management and planning, this EU policy position is in danger of undermining

¹⁸ The final document lays down 11 principles which include: concentrating on a limited number of sectors in-country, effectively a maximum of three per donor country, plus budget support; redeployment out of other sectors; and limiting the number of donors in any sector to a maximum of three to five.

parallel efforts to increase concentration and harmonisation, and to reduce the number of donors active in any given sector. In addition to the potential for new member states to establish programmes, other members of the European community are also extending their development cooperation assistance to Cambodia, including Spain and Ireland.

The EU Roadmap includes in its principles that EU development ‘partners will seek both co-ordination of policy and harmonisation of procedures. (The latter is likely to lead on from the former.)’ This sequencing is reflected in work to date with limited progress on harmonisation of procedures. A consultant has been recruited to assist with implementation of the Roadmap, with a terms of reference that includes preparing a framework of indicators and targets for monitoring. It will be important that efforts to harmonise policy do not overshadow harmonisation of procedures, and that clear targets and indicators are set with regard to actions relating to delegated cooperation, multi-donor support facilities for capacity development and joint analysis and programming. This will require analysis of individual EU donors influence over procedural approaches at the country level. (For example, while budgeting procedures may not be open to change at the country level, the approach adopted to analysis and missions may be within the control of country offices). Clearly, close collaboration with headquarters, and feedback on systems and procedural constraints to harmonisation, will be essential to ensure progress on all aspects of harmonisation. Some progress on harmonisation of procedures has already been made at headquarters level with the introduction of the new implementing modalities through the new financing instrument for development cooperation (EC 1905/2006, Art. 27). The provision for the EC to fund through other development partners, and receive funding from them for delivery, should facilitate delegated cooperation. The EC in Cambodia has already begun discussions with other donors in this regard. However, significant constraints to effective harmonisation remain as discussed below.

Although a number of interviewees commented positively on the progress being made in terms of cooperation and information sharing among member states, several issues were raised which could potentially impact on progress to implement the Roadmap successfully. These are, therefore, worthy of some consideration. First, interviewees identified the different levels of representation and authority in Phnom Penh as a constraint to harmonisation and cooperation efforts. In part, this concern related to the EC Delegation representatives in Phnom Penh having a lesser degree of authority and autonomy than a number of other member state representatives. The EC has a Head of Delegation for Thailand, Burma/Myanmar, Laos and Cambodia based in Bangkok. In Phnom Penh, the EC Delegation to Cambodia is represented by a Chargé d’Affaires. The Head of Operations is also based in Bangkok. Interviewees commented that the effectiveness and efficiency of decision making at the EU donors’ regular meeting was at times undermined by the EC Delegation’s need to refer to Bangkok or Brussels. This could be particularly problematic given the facilitative role the EC is expected to play. It would be beneficial to clarify whether this is an actual or perceived problem, and the extent to which this has emerged due to formal systems versus informal arrangements. Some concern was also raised regarding participation in Head of Mission meetings in Phnom Penh. At times, these meetings discuss development cooperation issues of significance, including a proposed role in oversight of implementation of the Roadmap through annual reporting. However, those member states which have a development cooperation office but no embassy in Phnom Penh are not invited to participate in these meetings.

Secondly, consideration needs to be given to the resourcing of efforts to improve aid effectiveness of EU development partners. Many of these initiatives, and their measurement, are extremely labour intensive. While the recruitment of a consultant to support and facilitate implementation of the Roadmap provides an essential additional resource, harmonising of procedures in particular will also create work for staff of donor agencies. In progressing implementation of the Roadmap, it will be important to clarify the roles of the EC vis-à-vis the local presidency representative and other member states, so that responsibilities can be effectively resourced in the medium term.

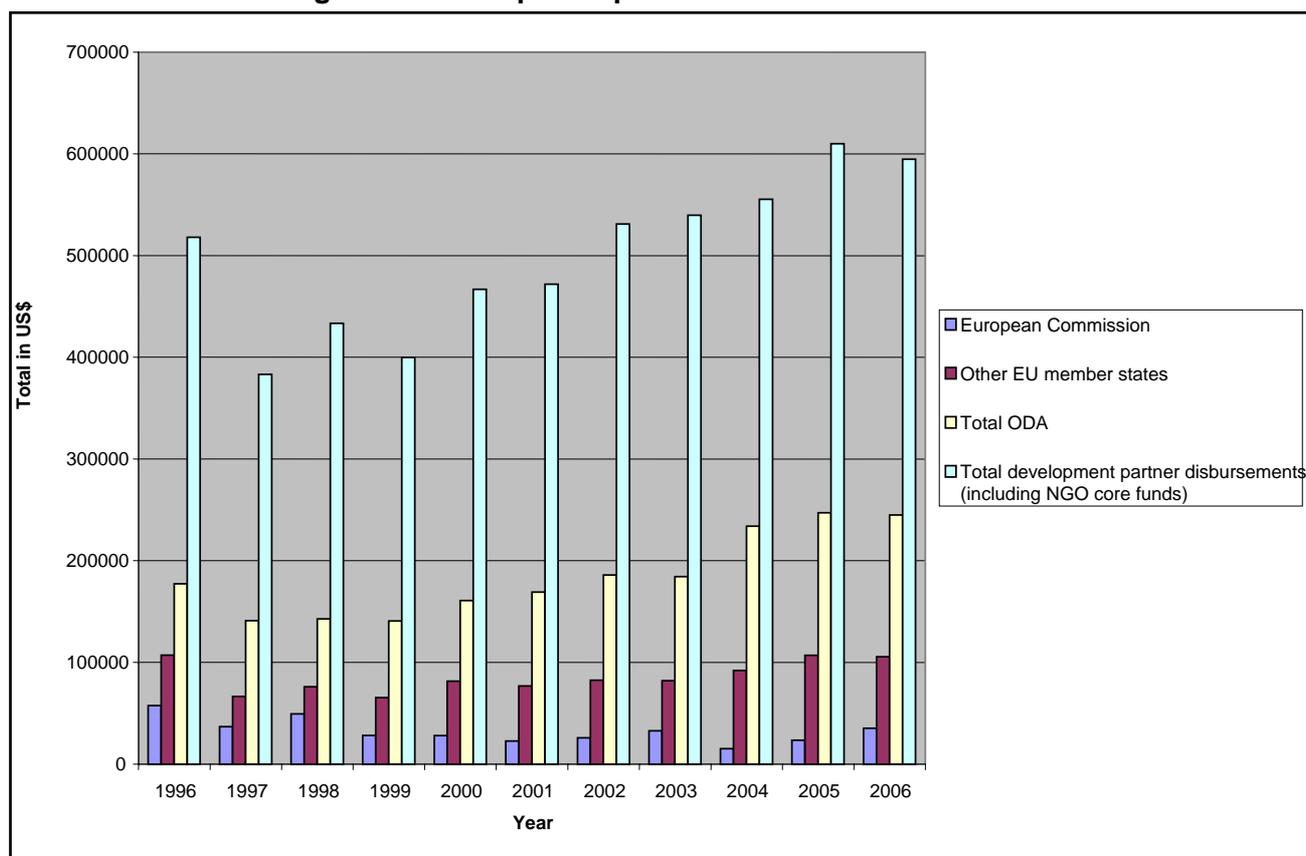
Thirdly, as outlined above, development partners continue to apply different interpretations of key terms and to demonstrate some inconsistency in reporting on aid effectiveness measures. The planned development of targets and indicators to monitor implementation of the Roadmap is likely to encounter similar constraints but also provides a valuable opportunity. Consistency in interpretation among EU donors could potentially contribute to broader discussions between development partners and the RGC on these issues.

Finally, Cambodia has a relatively sophisticated system of government-donor coordination. It is clear that there have been a number of initiatives to promote improved aid effectiveness of *all* development cooperation. EU donors will therefore need to give close consideration to what initiatives are best taken forward within the EU specifically, as compared with the larger donor group. Interviewees commented that they had initially been dubious of the added value of European specific initiatives in the Cambodian context. However, most were now starting to see the potential benefits. As an established political grouping, the EU has procedures in place to facilitate development of joint positions. This can at times be very valuable and may be a useful starting point for broader donor harmonisation. The meetings of European donors are also much smaller than broader meetings. The informal donors' lunch is one such example. A number of those interviewed believed that this allowed meetings to be more focused, open and transparent. Clearly the value-added of specifically European initiatives will need to be considered on a case-by-case basis. The Roadmap action to 'open up EU initiatives (e.g. joint programming) to other development partners where this contributes to aid effectiveness and is feasible' is a positive step. The development of targets and indicators for this action will provide a useful opportunity for member states to discuss when and how this should be determined.

4.4 EC aid: contributions and structure

Figure 5 outlines EC and EU assistance, compared with overall development partner flows, over the past 10 years. Provisional estimates for 2006 show the EU as a whole providing approximately 25% (US\$140.8m) of the development assistance to Cambodia, with the EC providing a quarter of that, at US\$35.2m.

Figure 5: Development partner assistance 1996-2006



Source: CRDB/CDC (2007).

The sectoral breakdown of the assistance provided by the EC in 2005 and 2006 (provisionally) is represented in Table 2.

Table 2: EC assistance by sector, 2005 and 2006 (US\$m)

SECTORS	2005	2006
Health	6,120	8,585
Education	1,094	5,658
Agriculture	5,187	3,345
Manufacturing, Mining & Trade	3,846	4,042
Rural Development & Land Management	820	490
Banking & Business		
Urban Planning & Management		
Post, Telecommunications and Media		
Power & Electricity	40	128
Water & Sanitation	199	50
Transport		893
Community & Social Welfare	1,636	1,685
Culture & Art		
Environment/Conservation	1,615	1,686
Gender Mainstreaming		309
HIV/AIDS	176	
Governance & Administration	2,918	7,697
Tourism		
Budget /Balance of Payments		
Emergency Relief/Food Aid		
Other		674
Total	23,851	35,242

Source: CRDB/CDC (2007).

Both the governance and administration and the education sectors show significant increases in 2006, while the health, agriculture and manufacturing, mining and trade sectors were significant recipients in both 2005 and 2006. The EC has made a substantial contribution in these five sectors, but Table 2 shows EC assistance to be dispersed across 10 sectors in 2006 and 13 in 2006, out of a total 21 categorised sectors. According to the CDC database, the EC had 74 current projects in Cambodia as of 1 June 2007.¹⁹ There are over 30 development partners in Cambodia; of this group, only the ADB and Japan have a higher number of current projects. However, both the ADB and Japan are substantially larger donors than the EC (with provisional disbursement figures for 2006 being US\$61.9m and US\$100.4m respectively, compared with the EC's US\$35.2m) (CRDB/CDC, 2007). This also indicates a high degree of fragmentation within the EC's programme of development assistance. The large number of EC projects was mentioned by interviewees – both EC Delegation staff and others - as an area of concern.

At least in part, this relatively low concentration and high fragmentation seems to be associated with the EC implementation modalities. According to information captured by the CDC database (see Table 3), less than half of EC aid is disbursed to the government. In the earlier discussion on implementation modalities, the overall percentage of development assistance implemented through government was 75%. Figure 4 above allowed for some comparison in development partners' implementation modalities and showed the EC as having the fifth lowest percentage of assistance implemented through government. Of those development partners with lower percentages, only the Netherlands had disbursements of more than US\$3.5m in 2006.

Table 3: EC aid to government and non-government sector (US\$m)²⁰

YEAR	TOTAL EC AID	GOVERNMENT	NGO	OTHER
2005	23.7	8.3 35%	10.3 43.5%	5.1 21.5%
2006	35.2	16.3 46.3%	12.m 36.6%	6 17%

Source: CDC database; CRDB/CDC, Annex 6.5 (2007).

¹⁹ The CDC database (www.cdc.khmer.biz) lists the EC as having 120 projects, but this includes completed projects. The total number of current projects (76) was confirmed in discussions with the EC Delegation.

²⁰ It is important to note that at times annual figures relating to EC aid may not accurately reflect broader trends. For example, commencement of a new NIP (or completion of a previous one) and/or contributions to trust funds, may distort annual figures to some extent.

The high degree of EC aid categorised as ‘other’ in CDC reporting makes it difficult to make an accurate assessment of the channelling of EC aid. While this may in part be a problem with the CDC database it is important to note that few other donors have any assistance categorised as ‘other’ in Annex 6.5 of the CRDB/CDC report. In fact overall, the amount of total disbursements unable to be clearly classified as either ‘Government’ or ‘NGO’ is only 1.4% in 2005 and 1.2% in 2006. The EC Delegation should therefore explore further the reasoning behind this classification and seek to improve clarity on the channelling of EC Aid for CRDB/CDC reporting. The EC Delegation’s estimate was that approximately two-thirds of the EC aid is disbursed through the bilateral programme (representing approximately 20% of projects) and one-third on non-bilateral projects (representing approximately 80% of overall projects in number).

As outlined above, Cambodia has a long history of NGOs playing an active and critical role in both advocacy and human rights work, and service delivery in the absence of government capacity. However, it is important to recognise, and address, the particular aid effectiveness challenges associated with the provision of significant assistance through NGOs, both in terms of alignment and ownership, and the higher degree of fragmentation which often results from programmes of assistance to NGOs, owing to average project size.

4.5 Approach to strategy development

In 2006, the EC developed its CSP for the period 2007-13 and the National Indicative Programme (NIP) for 2007-10. The Phnom Penh and Bangkok offices had primary carriage for development of both the CSP and NIP, with support from Brussels. This allowed for the EC Delegation’s knowledge of the Cambodian situation and experience from involvement in TWGs to effectively inform the strategy’s development. It also provided the opportunity for substantive engagement with government. However, this potential opportunity does not appear to have fully been realised.

Specific consultation with government appears to have been limited or, at least, non-substantive. While a number of member states and other donors now engage with the CDC as their key government focal point (in line with its role outlined above), the EC continues to identify the Ministry of Foreign Affairs and international Cooperation (MFAIC) as its key counterpart. This largely reflects the broader relationship the EC has with the Cambodian government and the fact that consultations on development cooperation are merged into a broader biennial consultation, which also includes discussion on issues relating to politics, trade and investment. In this particular case, consultation with government consisted of sending the CSP and NIP to MFAIC for comment and relying on the ministry to gather comments from other government departments. Given the recognised and documented weaknesses in cross-government coordination, such an approach has had significant limitations. This was reflected in the quality of the comments received from the ministry, which the EC Delegation reported largely focused on questioning the accuracy or appropriateness of the analysis section of the paper. The CDC commented that they had not been invited to comment on the CSP or the NIP. As the RGC’s appointed focal point on development cooperation, they would have been well placed to provide useful inputs into the strategy and programming development process.

The lack of specific and broad consultations on such critical planning documents as the CSP and NIP significantly undermines ownership and alignment. The NSDP and TWGs may provide some information on government priorities, but strategy and programme development provides an opportunity for more targeted dialogue with government on sectoral priorities and programming decisions made by other development partners. The RGC has stated their interest in ‘moving away from the trend of development partners developing most project proposals and leaving sometimes limited scope for revisions by Government’ (CRDB/CDC, 2007: 28).

While recognising the importance of broader diplomatic relations between the EC and the RGC, and the potential sensitivity surrounding any perceived shift from engagement with MFAIC, it is critical that the EC establishes arrangements that better enable substantive government engagement on development cooperation strategies and programmes. The RGC’s appointment of the CDC as the key focal point on development

cooperation²¹ provides an opportunity to address this issue, by either modifying the current arrangement or making additional efforts to ensure consultation has been sufficiently comprehensive.

CSP and NIP focus areas

Despite concerns regarding the consultation process, the NIP for 2007-10 reflects strategic choices on behalf of the EC Delegation to focus on the following areas:

- **Focal Sector 1:** Support to the NSDP through participation in the Poverty Reduction Support Operation (PRSO) and Public Financial Management Reform programme (PFMRP);
- **Focal Sector 2:** Support to Basic Education;
- **Additional Action 1:** Trade-related Assistance;
- **Additional Action 2:** Support to EC-Cambodia Cooperation and Dialogue in the field of Governance and Human Rights.

The NIP seems to represent a move towards greater concentration of assistance and implementation of the European community's commitment to increased alignment and use of programme-based approaches.

Focal Sector 1 (PRSO and PFMRP) is estimated at representing 25-30% of the total EC budget (sought through this instrument). This will include budget support through the World Bank-led PRSO²² and a contribution to the multi-donor trust fund financing the Ministry of Economy and Finance's PFMRP.

The PRSO will use performance against a sub-set of the JMIs agreed by government and development partners to trigger disbursements. The currently agreed indicators focus on public financial management (PFM), private sector development and land management, administration and training. The key elements of the PRSO are summarised in Box 5.

Box 5: Key elements of the poverty reduction support operation

The key principles include:

- Government-owned programmes;
- High degree of political commitment by the government;
- Strong links with the poverty reduction strategy and integration with the NSDP;
- Aid to be provided based on actions already taken;
- Alignment of donor support behind a common reform agenda;
- Reduced transactions costs of delivering aid;
- Solid monitoring of results; and
- Safeguards to reduce fiduciary risks.

Source: IDA/IFC (2005).

Different donors contributing through the PRSO can disburse at different times and may choose either to provide variable tranching or to delay disbursement if performance is not deemed acceptable. In developing the rationale for this move to GBS, the EC Delegation was able to rely on analytical work undertaken by other development partners such as the international financial institutions (IFIs) and the ongoing PFMRP (thereby avoiding an additional mission). It is proposed that, in the future, analysis of performance will also be conducted jointly by the development partners. However, while the contribution to the PRSO is included in the NIP, which has been approved, more detailed plans still need to be agreed between the EC and the World Bank. First, the current general practice by the World Bank is to delay disbursement if performance against agreed indicators is deemed insufficient. However, the EC's preference in other country contexts has been for variable tranching, allowing partial payment depending on the level of assessed performance. It was the view of the EC Delegation in Phnom Penh that this approach provided greater predictability for government. Secondly, the EC will need to continue discussions with the World Bank regarding the sub-set of JMIs used for disbursement. EC headquarters have requested a greater focus on the social sectors and it is therefore likely that additional social indicators will be proposed over time. It will be important that the EC

²¹ The composition, role, functions and responsibilities of CDRB/CDC are outlined in Sub-Decree No.#147 ANK.BK, dated 29 December 2005.

²² This is now being referred to as the Poverty Reduction and Growth Operation (PRGO), but PRSO is used here as this was the correct title at the time of NIP and CSP development.

continue to work closely with other donors as these discussions develop, to ensure that the addition of new indicators does not undermine the positive harmonisation and alignment attributes of the PRSO approach.

The PFMRP now serves as the common reform programme supported by all development partners. In 2004, a SWAp was established. Partners have agreed to work within this framework – coordinating their support to minimise transaction costs, improving the quality of technical assistance provision and ‘speaking with one voice’ (World Bank, 2005). The integrity of the SWAp is further strengthened through a number of donors, including the EC, using common arrangements and providing assistance through a World Bank-managed PFM trust fund. Donors contributing to the trust fund meet regularly and also include other donors active in PFM. The TWG on PFM brings together donors and government (including from line ministries), and also involves civil society.

As recognised by Blunt and Moul Samneang (2005: 15), there are fundamental philosophical differences among donors in relation to GBS, particularly in fragile state contexts:

On the one hand, those donors who interpret ‘national ownership’ as being inextricably linked with the employment of national systems of delivery despite evident shortcomings – the idea being that it is better to be ‘in there’ and to be helping things to improve than to be operating ‘in parallel’. On the other hand, there are those who believe that minimal levels of transparency and accountability of government systems should be set higher than they are and that the right to national delivery should be earned.

By providing GBS in Cambodia, while governance concerns persist, the EC has clearly opted for the first approach. This was not without controversy. However, by contributing through the PRSO and the PFMRP, the EC has sought to navigate a path that prioritises ownership, alignment and harmonisation, while also seeking to minimise fiduciary risk and maximise policy engagement on critical performance issues.²³

Focal Sector 2 (Support to Basic Education) is estimated at representing 35-45% of the total EC budget through the NIP. The EC is a lead donor in the education sector and plays an active role in the Education TWG. The Ministry of Education, Youth and Sports (MoEYS) established a rolling five-year Education Strategic Plan in 2001 and an Education Sector Support Programme (ESSP). The ESSP is seen as a SWAp, in part owing to the existence of a sector-wide policy action matrix and efforts by development partners to align behind the sectoral strategy and to coordinate through the TWG. However, the Education Support Programme currently has 82 projects (CDC database) which is indicative of a limited interpretation of a SWAp. Within this context, the EC is an exception, as one of only two donors providing budget support to the ministry (the other being the ADB in the form of loans). Under the previous NIP, this constituted targeted budget support providing assistance to priority action programmes (PAP). However, the 2007-10 NIP indicates a move towards sectoral budget support in line with the ministry’s own move towards programmatic budgeting. While budget support is not the only way the EC provides assistance to the education sector, it represents the primary form of engagement and has allowed for the greatest degree of ownership and alignment possible within the budget system which has been operating in the ministry to date.

The Education For All (EFA)/Fast Track Initiative (FTI) is a multi-donor trust fund administered by the World Bank at the global level. From 2007, the FTI will provide education sector budget support totalling US\$57.4m. This will provide potential for strengthened harmonisation among those donors providing budget support. It is planned that a work plan will be agreed and disbursement will be linked to performance. The World Bank aims to have joint monitoring missions between UNICEF, ADB, EC and itself to harmonise the approach and be able to raise common policy concerns.

²³ During the presentation of this report to the Committee on Development of the European Parliament on 16 July 2007, one of the MPs expressed concern about a shift towards GBS in Cambodia, given the country’s relatively poor record on human rights and other important democratic standards. Clearly, it is relevant that concerns over human rights should be considered in decisions about the provision of aid, but there is no *a priori* reason why this should be any more important for budget support in relation to other kinds of aid. Undoubtedly, fiduciary risk is of greater concern in relation to the provision of budget support, and a proper assessment of PFM systems and of planned PFM reforms is essential in entering into any decisions about budget support, in Cambodia as well as elsewhere. Both in relation to addressing fiduciary weaknesses and concerns over human rights or democracy, a decision does need to be made over whether a cautious, small-scale engagement (through budget support) may be more helpful in achieving change than total disengagement. There are reports from the EC’s work in the Cambodia education sector which point to some success from a cautious engagement through the provision of small-scale education sector budget support.

Box 6: EC role in the education sector: a good practice example

The EC has played a critical role in the education sector in recent years, not least through its support to the establishment of budget management centres at district and provincial level. The establishment of the centres has helped decentralise financial management and reporting in the education sector (IDA/IFC, 2006). They have also allowed the EC to track allocation of its development assistance to PAPs from the central ministry all the way down to schools. The recent PD Survey stated ‘the lessons from the Education Sector Priority Action Programme ... which use[s] government financial systems, should be adopted and applied broadly’ (OECD DAC, 2007a: 8).

The EC is now playing an active role in encouraging other donors to use government systems within the sector. It has recently commissioned a review of aid effectiveness in the education sector, the recommendations of which will be shared with the Education TWG with the intent of obtaining broader buy-in for its recommendations.

Increased concentration?

The decisions relating to both focal sectors in the NIP strengthen the EC’s capacity to increase the concentration of its assistance, harmonise with other donors, align behind government priorities and use country systems. In this way, they represent a significant step forwards in improved EC aid effectiveness and in building on earlier moves in this direction. For example, the EC contributed to the PFM trust fund in 2006, and has played a leadership role in the education sector for some years. However, the addition of GBS and the move to sectoral budget support, along with the increased percentages of overall assistance channelled through these modalities, represent a potential shift towards a new phase within EC assistance in Cambodia.

It is important to note however, that the NIP only covers those initiatives that require funding during the 2007-10 time period, and funding provided through the geographic programme within the DCI. Read on its own, this could indicate a greater degree of concentration and focus in the EC programme than is likely to be achieved by 2010. Under the geographic programme, the EC will continue to provide significant assistance to the rural development and health sectors throughout the 2007-10 period. Despite the fact that the CSP covers the period to 2013, it does not outline the extent to which the selection of focal sectors, and approach adopted to delivery, represents an overarching strategy to increase the concentration of the geographic programme during the period in question. Alternatively, the apparent concentration may merely be a product of other sectors not requiring funding during the 2007-10 programming period.

The NIP also does not cover funding provided through thematic, regional or horizontal budget lines. These budget lines are briefly mentioned in the CSP; no real detail is provided.

Thematic, regional and horizontal budget lines

In 2006, the EC and EP agreed to a reduction in the number of thematic budget lines and established a new financing instrument for development cooperation. According to Regulation (EC) No. 1905/2006 ‘thematic programmes should provide distinctive added value and complement programmes of a geographic nature, which constitute the main framework for Community cooperation with third countries’ (para. 13). While recognising that these recent reforms have not yet come into full effect, the way in which assistance is provided through thematic and regional budget lines was raised by a number of interviewees as a matter of concern. As previously mentioned, the EC has 76 projects currently being implemented in Cambodia. While the majority of funding comes from the geographic programme (estimated at two-thirds), most projects are funded through other budget lines (approximately 64). A full list of EC projects can be found in Annex 4. It is clear that there are many instances when support to NGOs is the most appropriate way to address priority needs. However, to improve aid effectiveness, it is necessary that significant effort is made to ensure that such assistance is aligned with government priorities.

For the majority of thematic and regional budget lines, calls for proposals are issued from EC headquarters. These are often fairly broad in nature, given their multi-country focus. This seriously limits the capacity of the Delegation to utilise these budget lines to address specific gaps in government capacity and/or priority needs. EC staff interviewed indicated significant variability in the extent to which the Delegation was able to comment on the appropriateness of proposals, and on whether they were in line with priority needs in Cambodia, and to influence funding decisions. In some instances, staff reported that they were able to appraise proposals and took this opportunity to consider the extent to which the activities proposed were

duplicative. However, many other staff claimed to not have been invited to comment on activities relevant to their sectoral responsibility, to have been given limited time to provide meaningful comment, or to have strongly recommended against funding of a particular activity only to find that it had been approved. Staff were able to relate many instances where projects funded through thematic and regional budget lines had been inconsistent with stated EC positions on related issues, had duplicated tasks already completed by other development partners (or even by the EC itself), or had contributed to significant transaction costs for government for limited quality impact.

While the EC Delegation's input into funding decisions has been limited and variable, the input of government officials has been seemingly non-existent. A number of EC Delegation staff claimed that they had not been given the time to undertake meaningful consultation with government, and that the large number of projects (and budget lines) would result in a significant burden on government if they were to be involved in appraising proposals. The CDC stated that it had no involvement in decisions on EC funding to NGOs, despite having arrangements with other development partners which provided it with greater opportunities for engagement. In establishing the Strategic Framework for Development Cooperation in 2006, the RGC stated (2006: 4) that

... in spite of major improvements, the current situation is such that a significant proportion of ODA still bypasses the National Budget process because of the practice of direct funding by development partner agencies to project implementers. This situation has resulted in inadequate Government ownership of many projects; in 'piece-meal' efforts and insufficient coordination by development partner agencies on sector issues and institution building.

The fact that many of the thematic and regional budget lines are managed from Brussels, or other regional locations, seriously limits potential for coordination, harmonisation, alignment and country ownership. The EC Delegation's limited influence over the programmes places it in a difficult position in relation to aid effectiveness. It is evident that the EC is making significant efforts to gradually improve the aid effectiveness of its geographic programme. It is also an active participant in broader aid effectiveness discussions and is playing a lead role in promoting harmonisation among EU member states. However, the inconsistency in its position on the geographic programme and the thematic and regional budget lines is in danger of undermining the EC's standing in relation to aid effectiveness, and therefore its potential influence in broader policy dialogue on these important issues.

According to the Communication on the 'Reform of the Management of External Assistance' of the 16 May 2000, 'anything that can be better managed and decided on the spot, close to what is happening on the ground, should not be managed or decided in Brussels'. Recently, the EC Delegation in Phnom Penh has taken on responsibility for management of micro projects under the European Initiative for Democracy and Human Rights (EIDHR). This has enabled the Delegation to call for proposals to address specific gaps in assistance they identify. At the time of the field visit, the Delegation was drafting papers on recommending greater authority be devolved to the Delegation in relation to two other non-geographic budget lines. The piloting of greater devolution in relation to these programmes would provide a valuable opportunity to assess the benefits in terms of aid effectiveness. However, the current management processes and systems for thematic and regional budget lines are highly labour intensive. Therefore the human resource implications of such an initiative will need to be given careful consideration to ensure the potential benefits in terms of aid effectiveness are not undermined by under-resourcing.

4.6 Other emerging issues

Accessibility of information

The existence of a range of different budget lines has at times limited the availability of easily accessible information on the full range of EC assistance to Cambodia. There is no one document that clearly states the range of different activities the EC is supporting and how they are funded. While the CSP provides a strategy for future engagement, it is unable to provide information on what assistance will be provided through the non-geographic budget lines, as the allocation between countries (and also activities) is not predictable. The CSP also only provides *indications* of what course programming will take. Further information is provided in the NIP, but this is also indicative and only covers those programmes to be newly funded in the NIP period. It therefore does not include significant programmes of assistance already underway. While information for all projects is on the Delegation's website, this is in individual project sheets and does not provide a clearly

accessible overview. It also does not indicate which budget line is supporting which activity. This lack of accessible information is non-conducive to harmonisation and coordination and does not facilitate information sharing among EU donors as envisaged in Regulation EC No. 1905/2006. Inaccessible information also undermines government's understanding and awareness of the full extent of EC assistance and how it operates. As one EC staff member commented 'no-one outside the EC has an overview of the EC assistance coming into Cambodia'.

Human resource issues

Many interviewees also commented on the labour intensity associated with such a large number of projects being funded through a range of different non-geographic budget lines. For this reason, increased engagement in assessing proposals and input into decision making is a double-edged sword, as many staff do not feel they have the resources available to engage more substantively, owing to the significant contracting, monitoring and financial management associated with each individual project. There is a danger that the resources available in Phnom Penh will be focused primarily on the one third of the programme being channelled through non-geographic budget lines, while the larger amount of funding, and potential for most substantive policy dialogue, influence and aid effectiveness, is through the geographic programme. The capacity for the EC Delegation to play a lead role in promoting aid effectiveness and in taking forward new initiatives, such as those required to implement the Code of Conduct, will depend on the availability of sufficient quantity and quality of human resources with designated responsibilities. A number of EU donors commented on the positive role the EC was playing in this regard *despite* limited resources.

4.7 Key lessons emerging and considerations for the EP

Alignment and ownership

- The EC has made significant positive steps with regard to ownership and alignment in relation to its focal sectors proposed for the NIP 2007-10 period through prioritising budget support and working closely with other donors.
- While recognising the important role played by NGOs, more effort needs to be made to promote alignment of NGO activities with government priorities. NGOs are playing an important role filling gaps in government capacity in relation to service delivery and reporting, and information sharing is critical to ensuring the government is aware of the full cost of providing services to its citizens. The nature of the thematic and regional budget lines is in danger of exacerbating this issue, given the limited opportunities for implementation of the principles of the PD in relation to these programmes.
- The EC and EP have made strong commitments to national ownership and alignment in relation to EC country strategy development and programming. However, opportunities for substantive consultation with government have not been maximised. Consultation with other national organisations (civil society and private sector) is also critical to promoting ownership. A reconsideration of the EC's counterpart relationships in relation to development cooperation may be valuable in strengthening government engagement in strategy development in the future.

Harmonisation

- Significant efforts have been made to strengthen EU harmonisation in Cambodia. A Roadmap to guide future initiatives has been established. Clarity on roles and responsibilities to ensure effective implementation of this Roadmap is important to enable effective resourcing of key functions.
- If the EC is to play a facilitating and/or leadership role in progressing EU aid effectiveness at the country level in Cambodia, consideration will need to be given to the level of representation and delegation of authority to ensure the EC Delegation's capacity to make decisions is comparable with that of other EU donors.
- While progress continues on harmonisation of positions and development of common messages, the high levels of fragmentation and large number of development partners in Cambodia requires the EU's aid effectiveness discussions to move towards joint programming, analysis and common arrangements as soon as possible. The EC should review accessibility of information on the totality of its Cambodian assistance given the importance of information sharing for effective harmonisation.

CHAPTER 5

EFFORTS TOWARDS ENHANCED EC AID EFFECTIVENESS IN MOZAMBIQUE²⁴

There is already a great deal of literature illustrating the donor alignment and harmonisation situation in Mozambique and, in particular, the overall situation with regard to GBS (see, for example, Batley et al., 2006). The value-added of this study is its focus on the specific role of the EC in these processes (the role of the EU Member States as a whole is not examined). As mentioned, it does not purport to provide a formal evaluation of EC aid to Mozambique. Overall, the EC has undoubtedly played a central role in donor harmonisation and alignment in Mozambique in recent years, including crucial contributions to the development of the GBS process and important sectoral reforms. Rather, the aim here is to identify areas of ‘good practice’ as well as constraints faced by the EC Delegation that the EP might be able to help to address or should take into account.

5.1 Background: country context and aid context

Political and governance issues

A few years after gaining independence from Portugal in 1975, Mozambique was plunged into 16 years of armed conflict between the government, led by the Mozambique Liberation Front (FRELIMO) and the Mozambican National Resistance (RENAMO). The warring parties signed the General Peace Agreement in October 1992. Since then, three successive rounds of elections have been held (in 1994, 1999 and 2004), with FRELIMO winning both presidential and parliamentary majorities and RENAMO leading an electoral union of opposition parties. The transition to peace and democracy has been accompanied by the progressive adoption of a liberal free market economic model (replacing the post-independence socialist planning model). These changes have also led to substantial inflows of external assistance. The overall political situation is stable, although potential sources of conflict remain and need to be monitored carefully (Vaux et al., 2006).

Economic development

The armed struggle had a devastating overall effect on the country. When the peace accords were signed in 1992, Mozambique was ranked the poorest country in the world. Although the country remains exceptionally poor (ranked by the 2006 HDI as 168th of 177 countries), progress since 1992 has been sustained and impressive, with 131% real growth between 1991 and 2004 (admittedly from a low starting point). Recent macroeconomic trends have been strong, with real GDP growth averaging 8.5% per year between 1996 and 2004. Per capita growth has also been strong, averaging 6.2% over the same period. This growth has been supported in particular by robust recovery of the agricultural sector, which accounted for 23.6% of real GDP growth between 1991 and 2004, suggesting a relatively broad-based economic recovery with benefits for poor rural families. Despite the economy’s vulnerability to natural disasters, economic growth has been accompanied by the development of a reasonably stable and predictable macroeconomic environment.

Poverty and social indicators

The percentage of the population living below the national poverty line (‘poverty headcount’) reduced by 22% between 1996/1997 and 2002/2003, exceeding the PARPA I target by the year 2005 (Mozambique’s PRSP). While poverty remains higher in rural areas (55.3%) than urban areas (51.5%), it fell more rapidly in rural areas (decrease of 22.4%, as opposed to 19.9% in urban areas). The pattern of rapid progress from a very low base is also reflected in the national report on progress towards the MDGs, which suggests that Mozambique has the potential to achieve several of its relative targets (i.e. those on poverty reduction, child

²⁴ This case study was prepared by Geoff Handley (ODI) with the invaluable cooperation, support and comments of DELMOZ staff as well as government, donor and civil society representatives. Many of the interviews were conducted jointly with an EC internal evaluation team, whose fieldwork coincided with this case study. In total, 27 people contributed to the study in 24 separate interviews, of which 12 were held jointly with members of the EC evaluation team. A full list of interviewees is provided in Annex 5.

mortality and maternal mortality) owing to this strong development trend. Of 11 MDG targets for which data were available, the second national MDG progress report in 2005 estimated that Mozambique had the potential of achieving five (GoM and UN, 2005).

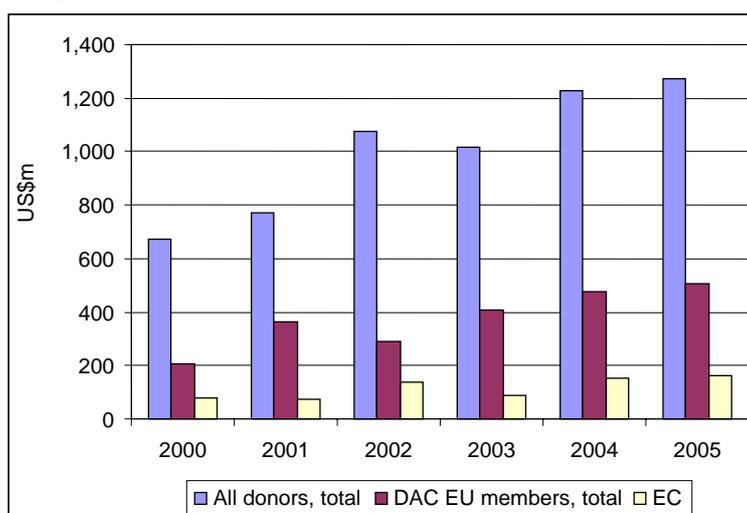
Medium-term planning and budgeting

The principal government planning document is the Government Five-Year Plan (PQG) which, according to the Constitution, must be produced by each new government on entering office (GoM, 2004). It establishes the government's priorities and operational agenda until the next general election. In 2000 and 2005, the government also produced Mozambique's first and second PRSP (PARPA I for 2001-5 and PARPA II for 2006-9). The PARPA is regarded by the government as an operationalisation of the PQG, focusing only on key sectors for economic growth and poverty reduction and going into far greater depth than the PQG with regard to resource allocation and the setting of time-bound targets for monitoring and evaluation of performance. PARPA II was approved by the Council of Ministers in May 2006, but was not submitted to Parliament for discussion. PARPA II is closely linked to the medium-term fiscal framework (MTFF), or CFMP, which provides forecasts for revenues and sets indicative ceilings for expenditures over a three-year time horizon.

Overall levels of aid, aid dependence and types of aid received

Figure 6 below summarises overall aid flows to Mozambique over the period 1995-2005, together with a breakdown of how much of this funding came via the EC and EU member states as a whole. In 2005, EC aid accounted for 13% of all disbursements in Mozambique. EU member states accounted for 39%, multilateral aid a further 40% and other donors 8%.²⁵

Figure 6: Total aid flows to Mozambique, 1995-2005



Note: Figures net of debt forgiveness grants.

Source: OECD DAC database.

Table 4: Composition of the state budget, % GDP

	2005 Outturn	2006 law	2007 planned	2008 CFMP	2009 CFMP
Total resources	29.1	29.8	33.7	28.8	28.3
Internal resources (revenue and GBS)	16.0	15.2	15.4	15.9	16.4
External resources (aid)	13.1	14.6	18.3	12.9	11.9
Recurrent expenditures	13.6	15.1	15.1	14.8	14.7
Investment expenditures	10.5	12.3	15.9	11.3	11.0
Internal component	3.5	3.7	4.2	4.5	4.9
External component (aid financed)	7.0	8.6	11.6	6.7	6.2

Source: GoM (2007).

²⁵ Data sourced from the OECD – DAC database.

Table 4 summarises data presented in the 2007 state budget, expressing revenues and expenditures as a percentage of GDP. It illustrates the high proportion of government spending that is donor financed, which typically fluctuates around 50% of total funding in the state budget.²⁶

Table 5 below sets out the overall levels and main funding modalities for direct aid to the government in 2005 and 2006. It shows that, among the PAPs (programme aid partners) who provide GBS, the largest single aid modality is project-based assistance, with 45% of aid channelled in 2006. This is followed by GBS, which accounted for 34% of PAP aid to Mozambique in 2006 (and around 15% of the total financing in the state budget).

Table 5: Main funding modalities for direct aid from PAPs to GoM, 2005 and 2006

Aid modality	2005		2006	
	US\$m	%	US\$m	%
GBS	329.9	33	355.1	34
SWAps	165.2	16	181.2	17
Sector common and basket funds	20.8	2	22.0	2
Pooled Technical Assistance	9.3	1	14.8	1
Provincial Budget Support	10.0	1	8.3	1
Project ODA	474.9	47	473.6	45
Total	1,010.0	100	1,055.0	100

Source: Castel-Branco (2007).

EC aid: contributions and structure

In 2002 the EC and the Government of Mozambique signed the CSP and NIP for the period 2001-7. These policy documents envisaged making €74 million available to Mozambique under the A-envelope and €5 million under the B-envelope (for unforeseen needs such as emergency assistance) within the framework of the Cotonou or ACP-EU Partnership Agreement. The additional budget lines were planned to finance specific operations, e.g. food security and agriculture, human rights and democratisation. The indicative allocations for the €74 million were envisaged to target three 'focal sectors': transport infrastructure (25-35% or 34.8% after the mid-term review); macroeconomic support (45-55% or 49.5% after the MTR); and food security and agriculture (0-15% or 7% after the MTR). Other programmes in non-focal sectors such as health and HIV/AIDS, good governance and support to non-state actors were to take 10-15% (8.8% post-mid-term review). In terms of how this portfolio looked by 2005, the EC was the single largest (grant) donor in transport infrastructure (€1.8m) and agriculture and rural development (€23.1m). It was the second largest contributor to GBS (€46.7m) and the second largest donor in the health sector (€15.9m), even though the latter was not considered a 'focal sector' in the CSP. It was also a large contributor to education (€8.4m) and the second largest donor in water and sanitation, where it spent €2m (DELMOZ, 2007).

EC aid to Mozambique is channelled via a number of different instruments. Principal among these is the EDF, which is the main financial instrument to deliver aid to ACP countries and is separate from the EC budget. In addition, a large proportion of funds (around 38% in 2005, falling to 25% in 2007) comes directly from the EC budget and is associated with a number of specific 'budget lines' which are either aimed at specific themes (e.g. health) or beneficiaries (e.g. support to non-state actors) and that are used on a global level. Budget lines are programmed and administered by the EC, on the basis of local or EU-ACP wide 'calls for proposals'. Aid channelled through the EDF, in contrast, is jointly programmed and administered by the EC and the partner government, with the latter's involvement coordinated by the National Authorising Officer (NAO), in Mozambique's case the vice-minister of Foreign Affairs and Cooperation. Table 6 shows the composition of EC aid for 2005-7 broken down by generation of EDF and by budget line. In terms of the use of different aid modalities, in 2006, 36% of direct aid from the EC to GoM was channelled through GBS (40% in 2005), 16% through SWAps (25% in 2005), 2% via pooled technical assistance (2% in 2005) and 46% through projects (33% in 2005).²⁷

²⁶ The exact figure for GBS as a proportion of total expenditures is 16% for 2006 and 14% in 2007.

²⁷ Data sourced from Castel-Branco (2007).

Table 6: EC aid to Mozambique, 2005-7

	2005		2006		2007	
	€	%	€	%	€	%
7th EDF	4,344,843	7.9	1,852,683	2.5	1,809,139	2.0
8th EDF	6,192,345	11.2	5,617,154	7.5	12,116,258	13.2
9th EDF	23,699,638	43.0	46,096,822	61.8	54,649,182	59.6
Total EDF	34,236,826	62.1	53,566,659	71.8	68,574,579	74.8
Human Rights & Democracy	946,534	1.7	85,018	0.1	952,755	1.0
Environment & Forests	754,452	1.4	800,748	1.1	1,215,669	1.3
Fisheries	3,966,796	7.2	3,640,970	4.9	1,016,072	1.1
Food Security & Agriculture	10,668,776	19.3	11,672,699	15.7	15,520,053	16.9
Antipersonnel Landmines	474,679	0.9	500,000	0.7	525,321	0.6
NSAs & Co-Financing with NGOs	2,435,418	4.4	1,529,751	2.1	2,419,542	2.6
Health & HIV/AIDS	1,686,772	3.1	2,792,485	3.7	1,469,786	1.6
Total non-EDF	20,933,427	37.9	21,021,671	28.2	23,119,198	25.2
Grand total	55,170,253	100.0	74,588,330	100.0	91,693,777	100.0

Source: ODAMOZ.

5.2 Overview of harmonisation and alignment²⁸

Assessing donor performance in Mozambique

In Mozambique, donors providing GBS are arranged in a Group of 19 (G-19) PAPs, which includes the 13 EU member states operating in Mozambique. The GBS process involves an annual review, not only of government performance, but also of the PAPs against a set of indicators similar (though not identical for the 2006 assessment) to those used to monitor implementation of the PD. The assessment is undertaken in independent expertise contracted by the PAPs. To date, three such assessments have been conducted (Castel-Branco, 2007; Ernst & Young, 2006; Killick et al., 2005). In addition, in 2006, for the first time, a survey was undertaken in order to monitor implementation of the PD in Mozambique (OECD DAC, 2007b).

In the latest of the PAPs' PAF (performance assessment framework) assessments, individual donor performance was measured against a matrix of 15 indicators regarding portfolio composition, predictability and harmonisation and alignment. Results were then combined according to different weightings to produce an overall score for each agency (see Annex 7 for the EC's 2006 assessment). The overall score for the EC in 2006 was 23 out of a possible 36 points (64%), representing an improvement on performance as assessed in 2004 (44%). However, since the marks in general were higher (having risen from an average of 49% to 69%), the EC remained a mid-ranked donor, placed 9th out of the 18 donors that were assessed (8th out of 16 in 2004). The EC scored well on predictability (full marks on indicators 4 to 6), met targets in terms of the percentage of funds using the government treasury and procurement systems, avoided requiring additional reports and audits from the government outside its normal processes and did well in undertaking joint analytical work (six studies, all joint). Marks were lost in terms of the proportion of GBS in total EC aid disbursements to the government (36% of aid disbursed was GBS, just below the 40% target, mainly due to the specific cycle of payments for investment projects in that year), and the proportion of programme aid in total disbursements (55%, in comparison with a 70% target).²⁹ However, the final report also observed that the EC, as well as other very large donors such as the AfDB and the World Bank (all disbursing over \$100 million in 2006), were penalised for supporting large infrastructure projects (because this reduced the relative share of GBS in their portfolios), even though these are important for economic development and are arguably often best managed through project aid.

The PD Survey monitoring progress has a very high degree of overlap with the PAF assessment; indeed, the PAPs PAF matrix agreed in September 2006 for the assessment of PAP performance in 2007 is now fully harmonised with the PD indicators, with half of the indicators the same as those in the PD (but with higher targets for Mozambique) and the other half covering other aspects. The Paris survey of 2005 did capture

²⁸ For a more detailed discussion of donor progress on harmonisation and alignment, see Fischer et al. (forthcoming).

²⁹ Programme aid is defined as total aid to the government minus aid spent on projects (Ernst & Young, 2006).

additional information though. It shows the EC to have performed particularly well in avoiding entirely the establishment of PIUs; other very large donors financing infrastructure projects have created a number of such units.³⁰ It also shows that the EC aid portfolio is untied, although many member states still have work to do here, notably Spain (0% untied), Denmark (73%) and Germany (77%).³¹

Government ownership and leadership

Many respondents also emphasised the weak role played by the government in the whole mutual accountability process, whether it be determining what measures and associated targets the donors should be judged upon in the PAF, or in holding donors to account more generally. Many of the more 'progressive' donors who are more eager to see widespread adoption of the terms of the PD – the EC included – would welcome clearer guidance from the government as a means to strengthen their case for reform. The government is reluctant to do so for a number of reasons, including lack of time and technical know-how, and fear of reductions in overall aid volumes. In particular, overall responsibility for aid policy is split between MINEC, the Ministry of Planning and Development (MPD) and the Ministry of Finance (MoF), the latter two having been created from the division of the Ministry of Planning and Finance (MPF) in 2005, thereby dividing planning and budgeting functions into separate ministries and further fragmenting aid management.³² Weak inter-ministerial coordination makes it difficult for GoM to use this diverse institutional arrangement to manage aid.

GoM has begun to show signs of initiating a more coherent approach to aid management, with MINEC having recently submitted a draft National Aid Policy to the Council of Ministers for approval. This process is very much at an initial stage however, and the limited interest in harmonisation and alignment issues among many senior government managers is attested to by their partial understanding of the PD. As one recent report observed: 'at least some Government officials at top, technical level in key Ministries such as Planning and Development and Finance are not well acquainted with the Paris Declaration, the Memorandum of Understanding regarding GBS in Mozambique and the PAPs' PAF commitments and targets. Hence, Government officials could hardly use these tools in discussing and negotiating with donors' (KPMG, 2006). The development partnership model, which is predicated on government ownership and leadership, therefore has a weak institutional actor as its centre piece.³³ The overall result of the lack of government leadership is that harmonisation and alignment efforts are, at present, strongly donor driven and have to proceed by broad consensus, given that there is – at time of writing – no government aid policy. Efforts to promote aid effectiveness among the member states or in promoting more coherent activity in a given sector therefore confront a considerable collective action problem.

Harmonisation and alignment of country strategies

The EC has been central in moves towards more coherent and aligned donor strategies. In late 2005, 14 donors who were due to develop their country strategies during 2006 came together in a joint grouping known as the CS-19.³⁴ The grouping was initiated by a World Bank proposal for the development of a joint country strategy, but soon gathered a momentum of its own, with DELMOZ (Delegation of the EC in Mozambique) actively participating from the outset. The CS-19's objective was to 'increase coordination among donors and the Government and to explore the way forward for a possible joint programming exercise' (DELMOZ, 2007). The group planned to proceed through a two-stage process: i) information sharing and common needs analysis for Mozambique (to which DELMOZ substantially contributed with PARPA I assessment, PEFA study, environmental and migration profiles and ODAMOZ – the ODA Database for Mozambique – data); and ii) joint identification of common elements of the response strategy. The process ultimately achieved more on the first objective (information-sharing activities) than it did on the second (joint responses).

³⁰ The World Bank has 10 PIUs and the AfDB 13.

³¹ Although it should be noted that procurement for EDF financed activities must be sourced from ACP or EU countries, so is not wholly untied.

³² See Fozzard (2002) for some history on Mozambican aid management institutions.

³³ See de Renzio and Hanlon (2007) for a more detailed discussion of government-donor relations.

³⁴ Since the grouping originally comprised only 14 donor agencies it was originally named the CS-14.

This work coincided with decisions at EC level to move, on a voluntary basis, towards more joint work on country programmes between the EC and member states, based on a common framework for country strategies (EC, 2006). However, DELMOZ interviewees indicated that, while they had proposed some joint EU-wide country strategy programming, there was a mixed reaction among member states, owing mainly to misalignment of their respective programming cycles. As such, there was a lack of majority support among the member states and this joint programming did not take place. Moreover, other observers noted that DELMOZ's engagement in the CS-14 process as a whole was not as strong as it might have been due to personnel constraints (see Section 5.5).

Following on from this, in June 2006, a two-day retreat was organised with financing from the EC and DFID. It aimed to 'put GoM in the driving seat' (the event was coordinated by MINEC) and to build consensus regarding what more effective aid delivery might require, produce a mapping of the respective donors' country strategies, and agree on next steps. After the retreat, a government-donor committee was created and it was agreed to hold a series of individual review hearings of draft donor strategies, with consultants contracted to bolster government capacity to scrutinise donor presentations and administer a donor questionnaire that would feed into the process. The hearings took place over a two-week period in September 2006 and 19 donors presented to the committee.

Overall, the experience of the CS-19 process, the retreat and the country strategy hearings were regarded by many respondents as important steps in and of themselves. In particular, consulting the government set an important precedent, and the exercise helped to raise the profile of the PD among donors and government actors alike, thereby helping to stimulate debate and action within government. However, the substantive results of the process were more limited, mainly comprising information sharing, and the process could have benefited from a much clearer orientation from government (e.g. on preferred mix of aid modalities and division of labour among sectors and provinces). In all, four government institutions were represented in the discussions, illustrating the diffusion of aid management responsibilities within the government: MINEC (the lead institution), MoF, MPD and BdM (the central bank of Mozambique).

The alignment of the beginning of the EDF programming cycle and the publication of PARPA II that occurred in 2006/07 will not happen after the next government medium-term plan is produced (probably in 2010), because the two programming cycles are of differing lengths: the EC has a six-year cycle for the 10th EDF while the government planning cycle operates on a five-year timeframe. However, the successive reviews process can be used to adapt this to some extent and the EC is well positioned since it has developed a relatively focused portfolio with a small number of core activities (macroeconomic support, roads and agriculture) that will continue to be central to GoM priorities.

5.3 Progress on alignment

Alignment and the EC's financing mechanisms

In terms of the EDF, DELMOZ, in conjunction with GoM, has worked hard to ensure that the 10th EDF is very closely aligned with GoM priorities. However, for the Delegation to be able to incorporate all available resources into an aligned programming process there would need to be a big change in the overall ACP-EU partnership structure. To date, DELMOZ has had to incorporate a number of 'unprogrammable' expenditures into its country portfolio which were not foreseen in the CSP. For example, the launch of first calls for proposals for the EU Water Initiative (EUWI or 'Water Facility') in 2004 and the EU Energy Initiative (EUEI or 'Energy Facility') in mid-2006, both financed with intra-ACP EDF funds, have represented challenges to the EC's portfolio concentration and alignment (although water and energy are priority areas for GoM, the timing of these funding flows is the primary alignment issue). The facilities total approximately €30 million for Mozambique and their associated administrative demands put pressure on human resources available to the Delegation. As the joint government-donor panel receiving the EC presentation of its draft country strategy paper observed, 'More clearness is necessary in the predictability and in the management of the different global vertical funds and regional [sic] (Facilities for Water, Partnership for Infrastructures, Facilities for Energy)' (KPMG, 2006: 76).

The case of support to NGOs through the support to non-state actors budget line was also highlighted as problematic for alignment, because its focus is institutional rather than thematic – it focuses on building capacity of local partner organisations (i.e. NGOs) – and projects can therefore be started in any sector.

Alignment of these funds has in the past proved particularly difficult since they were administered remotely from Brussels. The situation has improved in recent years, and the delegation has had a much stronger say in the final decision since the devolution of power to delegations in 2004. Now, under the new call, DELMOZ is one of two evaluators to approve projects and is given a very strong say as to whether projects are given the go-ahead, although the final say remains at headquarters level (from the decision onwards, management is undertaken by the Delegation). Although there is clearly a balance to be struck in terms of ensuring that some of these funds are able to support non-government actors (such as the opposition parties), as Grimm has observed, 'alignment will increasingly have to include non-state actors when they operate as service providers in Mozambique' (Grimm, 2006b).

Cotonou represents the only existing partnership agreement with co-management – i.e. shared management between GoM and the EC. Thus, the roughly two-thirds of funds that are financed by the EDF are administered jointly between the EC and the NAO. Designating a clearly identified focal point in the GoM is an important and noteworthy practice for promoting ownership and dealing with aid coordination issues, particularly when one considers the relatively large size of the EC portfolio. As mentioned, the 10th EDF is now very closely aligned with GoM priorities, in part as a result of the co-management process. However, there is a trade-off between these gains and timely implementation of funds: dealing with the NAO can be cumbersome, adding an additional layer to EC-GoM relations. One possible option for improving the timeliness of the implementation of EDF financed activities would be to decentralise the management of EDF funds to sector ministries.

Aid from the EDF is also made more complex by the fact that the EC portfolio contains projects financed by many overlapping generations of EDF simultaneously (some dating back to the 6th EDF). Each has its own different procedures. With these lags in implementation of EDF projects, the EC is thus limited in the extent to which it is free to align around government priorities, as it has to deal with older projects, some dating back many years, and will have to do so for the foreseeable future, although this will lessen over time as Mozambique moves into the 10th EDF (with SBS and GBS providing more than 80% of the total envelope).

EC sector alignment

Progress on sectoral alignment varies by sector. Some have long histories of working through SWAp and common pooled funding mechanisms whereas, in others, these approaches are relatively new or non-existent. The EC has played a pioneering role in driving H&A developments over a number of years in key sectors. The common fund supporting the Integrated Financial Management Information System (SISTAFE) – of which the EC is the largest financier – is an excellent example of aligned sector support, especially in its treatment of technical assistance, which is contracted directly by the government according to its needs and financed by the common fund. The results are encouraging too: although the roll-out of SISTAFE has had substantial delays, such reforms are typically very difficult to implement, making Mozambique a relatively successful case (Fischer et al., forthcoming).

The EC has also made strong contributions to sector alignment in agriculture, where it is the single largest donor. Agriculture will soon become the first sector in Mozambique to adopt SBS (sectoral budget support) under the second generation SWAp (PROAGRI II), and there has been progressive alignment at policy level, with a common set of principles (PARPA II) and indicators (the PAF) being used as the basis for the new memorandum of understanding (MoU). The EC will also start to provide SBS in the roads sector in 2007, with the expected signature of a MoU for support from 2008, thereby ensuring that the two focal sectors of EC aid are financed by the SBS modality. PROAGRI was the first SWAp to be established in Mozambique, with the EC taking a lead role in its early development and it provided experience that helped to inform the later formalization of the GBS process. However, it was very time consuming to establish, taking seven years of negotiation to reach the implementation phase (Pavignani and Hauck, 2002), and in this regard the EC's advocacy for and support of SBS – which should help to reduce transactions costs – is a strongly positive development in sector-level H&A.

The move to SBS in agriculture also places the EC's support on a much firmer footing: under the 9th EDF it was not clear that the EC procedures actually permitted contributions to common funds. This came to a head when, in early 2006, DELMOZ and other ACP delegations were informed by Brussels that apparent inconsistencies in the Cotonou Agreement provisions for co-financing and pool funding meant that the

proposed pool funding support to SISTAFE could only be provided if all participants adopted EDF procedures³⁵. Pool funds are sector-specific funds administered from separate accounts whose expenditures can normally be tracked (as opposed to SBS, where funds are transferred to the central bank and then to the treasury and cannot be attributed to specific expenditures). At this stage, DELMOZ had already been supporting the SISTAFE common fund for a number of years and was a key financier and dialogue participant. Following clarification of the legal position by the Commission towards the end of 2005 a decision was taken to go ahead with pool funding arrangements on a case by case basis. With strong support from EuropeAid and DELMOZ, the SISTAFE programme was selected as one of these pilot cases. While it seems that under the 10th EDF Financial Regulation and Implementing Rules the possibility of EC use of Common Funds has been substantially clarified, this episode provides an example of the cumbersome nature of some EC procedures, and the valuable role an effective Delegation can play in ameliorating their impact on partners. Further, it underlines the importance to the EC and EU member states of ensuring that the provisions for the implementation of the EDF are sufficiently flexible to allow the Commission to play a meaningful role in delivering the commitments of the Paris Declaration.

Indirect taxes and donor-funded public works

Many donor agencies, including the EC, have operating procedures that require tax exemptions to be granted for their aid (in the case of the EC in Mozambique, this is set out in the terms of the Cotonou agreement). The origins of this requirement date back to before the advent of GBS, against a background of very weak recipient budgeting and tax systems. In turn, the government seeks to pay these taxes out of general government funds in order to limit exemptions in the fiscal regime, to broaden the tax base and to reduce the scope for fraud and tax avoidance (Orlowski, 2007). Mozambique's limited capacity in budgeting and tax administration makes VAT a particularly difficult tax to administer. These difficulties are compounded by donor agencies' requirements for VAT exemptions, particularly for very large externally financed infrastructure projects for which the government must budget large counterpart funds to cover VAT exemptions. There are thus two distinct and interrelated issues here: the weak budgeting and tax administration on the part of GoM and the requirement for tax exemptions on the part of many donor agencies. The net result is that the government accrues millions of dollars of arrears in VAT payments owed to the private sector.³⁶

A large part of DELMOZ aid spending is on large infrastructure projects. This aid is exempted from tax under the terms of the Cotonou Agreement, which has a most-favoured nation (MFN) provision (EU-ACP, 2000, Art. 31 Annex IV), meaning that Mozambique must grant the same concessions to the EC as to other states or international organisations. In conjunction with the government and with other donors, DELMOZ is working towards a solution in terms of improving government administration of VAT through strengthening of its budgeting and tax administration systems. Regarding the requirement for tax exemptions, DELMOZ, whilst respecting the terms of the Cotonou agreement, would also support a move away from such exemptions in line with the government's preference for 'the complete financing of projects by the donors, including the payment of taxes' (GoM and PAPs, 2007b). However, DELMOZ cannot, on its own, work around the exemption requirement. This would either require a revision of Article 31 of the Cotonou agreement or a situation in which none of the other donors have exemptions (in order to comply with the existing MFN clause). Overall, there is a clear case for the requirement for tax exemptions on EC aid to Mozambique to be relaxed, whether as a pilot country study or as part of a wider reform initiative. The European Parliament could play a positive role in supporting such an initiative.

5.4 Progress on harmonisation and coordination

DELMOZ's role in harmonisation and EU coordination

As Grimm (2006b) notes, 'The Delegation in Mozambique is not an aid agency office, but rather a political representation with strong donor characteristics'. There is thus a tension in many DELMOZ activities between its donor characteristics and its other functions. Further, in the area of development and in a local context of intense and concurrent coordination efforts, DELMOZ management did not feel as though it had a

³⁵ Specifically, Article 65 of the Cotonou Agreement (which provides for pooled funding arrangements) was considered to be in apparent conflict with Article 28 of Annex IV of Cotonou (which relates to procurement).

³⁶ Although it should be noted that GoM and the private sector have differing estimates regarding the total size of the arrears – at the time of writing a study had been commissioned to establish the size of outstanding (valid) claims.

specific and recognised mandate to act as a coordinating body for the member states' donor agencies in Mozambique – i.e., interaction between DELMOZ and member states' donors operates on a consensual basis.

DELMOZ thus describes its approach to EU-wide coordination as 'opportunistic': where donor coordination initiatives already exist, DELMOZ is happy to participate without seeking to establish parallel EU structures; where gaps are identified, it can use its multilateral status to initiate EU-wide activities such as the EU Roadmap for Increased Aid Effectiveness. The Roadmap defined three areas of potential value-added of work at EU level to fill a gap left by work of other fora (in particular the PAPs) and comprised: i) an EU data base of aid; ii) an EU mapping of sector working group involvement for promoting division of labor, and; iii) an EU mapping of technical assistance to GoM to better coordinate planning of such activities. One possible inherent advantage of such EU-wide approaches is that they avoid the need to include more conservative donors such as USAID and JICA at the outset, agencies which often act as a 'brake', diluting the substantive content of H&A (harmonisation and alignment) activities (Riddell, 2007).

In addition, the EC might seek to take a bolder EU-wide coordination role in future following the publication in May this year of the EU Code of Conduct, which provides a clear and strong mandate for the EC to lead EU H&A efforts. However, reform as drastic as that proposed in the Code of Conduct will be difficult given the consensual nature of relations between DELMOZ and member states and the very high number of donors in each sector (the newly proposed health sector MoU has 15 potential signatories, for example).³⁷ Finally, the *acquis communautaire* signed by new member states on accession mandates them to establish aid activities and, if they were to decide to operate in Mozambique, DELMOZ could potentially play a crucial role in ensuring that they minimise the potentially negative impacts of the entry of additional donors (e.g. by promoting good practice and the use of shared premises). This might also encompass the activities of EU regions in Mozambique (Catalonia and Flanders both have agencies in Maputo).

EU coordination and harmonisation roadmap

In 2002, the EC launched the Pilot Initiative to Promote EU Harmonisation and Coordination between Member States in four countries, including Mozambique (Nicaragua, Morocco and Vietnam were also selected). A harmonisation and coordination budget line was established to finance activities under the pilot and, following an EU Heads of Cooperation meeting, three areas of focus – chosen so as to be complementary to existing PAP initiatives – were identified: i) design of an EU aid database; ii) reducing the administrative burden by mapping the participation of member states in working groups; and iii) mapping capacity-building of government activities by member states with a view to developing a common donor capacity strategy for the country.

Of these three initiatives, the EU database has made the most progress and provides an example of good practice in donor harmonisation and an example of a clear EU-wide (and subsequently even broader) leadership role provided by DELMOZ. The proposal coincided with a formal request from the government that donors provide it with quarterly disbursement data as opposed to the inconsistent, late and differently formatted submissions they were receiving up until then. This was particularly challenging for DELMOZ, with so many different budget lines and generations of EDF to manage and multiple data requests to deal with over and above those of GoM. Thus the idea of the European Union Database Information System (EU + DbIS) was born, with a member of staff contracted to DELMOZ under the new budget line. Initially only involving member states, by the end of 2005 all PAPs as well as USAID and Japan were incorporated. In 2006, this became officially known as the ODAMOZ database and UN agencies were also integrated. ODAMOZ now contains a wealth of publicly available data – available via a website and the Mozambique Donor Atlas (Bohr, 2006) – and has proved to be an important basis for common country analysis among donors.

More recently, there has been an attempt to make ODAMOZ more useful to GoM: it has now been handed over to MPD management and, to this end, DELMOZ is financing technical assistance to MPD to manage the database and train government counterparts. At the end of 2006, an ODAMOZ management committee was formed, composed of donors and ministries, and meeting on a bi-monthly basis. The committee has

³⁷ See Maxwell (2007) for a critical discussion of the Code of Conduct. Opposition from some large Member States may well limit the Code's Impact.

sought to improve and ensure the quality of the data base, its evolution according to newly identified needs, and link data collected more closely to the state budget (by integrating the Mozambican budget number in the 2007 data collection round). This helps to identify which aid is off-budget. However, the linkage is proving difficult to establish. Further improvements under discussion include recording whether aid was executed through the single treasury account (CUT).

It should be noted that ODAMOZ is still a work in progress, and particular areas for improvement include the lack of government interest in actively managing the database and the difficulties inherent in establishing stronger links with the state budget. The data also still contains inconsistencies, and data on the medium term are not complete and less reliable (Fischer et al., forthcoming). Thus, ODAMOZ was not sufficiently detailed or comprehensive to provide data for the recent PAF or PD monitoring exercises and parallel data collection exercises were required. In future, ODAMOZ may well be equipped to meet these demands, as data is increasingly classified as on-budget and on-treasury. Overall, these challenges (which are being addressed) should not detract from what is an excellent example of ‘good practice’ and exemplifies the EC’s ‘opportunistic’ coordination role.

Government-donor dialogue: political dialogue

The issue of how to manage ‘political dialogue’ with the government is highly contentious. Donors have always sought to maintain both formal and informal political dialogue (i.e. discussion at ministerial/Head of Mission level) with recipient countries. In the case of the EU, political dialogue under the Cotonou Agreement has been conducted in a flexible manner but also including regular joint meetings between EU and government representatives (among others the Prime Minister and the Minister of Foreign Affairs and Cooperation). However, the advent of large flows of GBS, recent experience of governance ‘crises’ in other countries (Uganda, Ethiopia, etc) and the H&A agenda more generally have led donor countries to seek to establish joint formal mechanisms for high-level dialogue which are more explicitly linked to the aid process. Having in mind recent experience of governance ‘crises’ in other countries (for example, Uganda and Ethiopia) and believing that GBS needs to be shielded from ‘political shocks’, some donor countries also seek to use donor groupings and joint mechanisms to identify ‘early warning signs’, communicate concerns and press for change and generally to assess and handle such shocks. Increasingly, this has come to focus on the GBS process.

The MoU governing the GBS process includes three sets of ‘underlying principles’ which, in addition to the matrix of 50 or so PAF indicators, must be respected by the government for GBS disbursements to be made. These are: i) a commitment to sound macroeconomic policies; ii) a commitment to poverty reduction; and iii) ‘commitments to peace and to promoting free, credible and democratic political processes, independence of the judiciary, rule of law, human rights, good governance and probity in public life, including the fight against corruption, (with reference to commitments in the constitution, NEPAD and international agreements) to be underlying principles of governance for the provision of budget support’ (GoM and PAPs, 2004). It is the third of these – essentially, a commitment to ‘good governance’ – and how to monitor and discuss it, that has proved most difficult for donor agencies to deal with.

The DELMOZ position is that political dialogue falls strictly within the terms of the Cotonou Agreement (whose ‘essential elements’ of respect for democracy, rule of law and human rights are very similar to the MoU’s underlying principles), and that it covers the entirety of the aid envelope and is not linked to a specific aid modality (such as GBS). There is therefore no need for a parallel political dialogue organised around the GBS process (and including the non-EU donors that participate in this forum). Further, DELMOZ maintains that the GBS process has to focus first and foremost on governance matters associated with budget support. Thus, political dialogue is seen as being inherently disconnected from funding modality, so the optimal response to a governance problem may be, for example, a change in the delivery of aid to infrastructure projects rather than a change in GBS flows.

The non-EU donors within the GBS group advocate instead for a broader dialogue because otherwise they would have to maintain their own bilateral dialogues (they are not able to participate directly in the EU-government framework). Otherwise, they maintain, they would be left without a political instrument with which to respond to violations or threats to the ‘underlying principles’. Some member states also regard the GBS forum as the appropriate institution for managing political dialogue. Although for some this issue is not

inherently related to the content of the MoU, the agreement is due to expire in 2009 and it needs to be redrafted, with formal discussions set to begin later this year; this process may bring matters to a head.

This issue illustrates some of the tensions that can arise between DELMOZ's political role and its 'donor characteristics'. For the signatories, the Cotonou framework (established through a legally binding international convention signed by all EU member states) takes precedence over multi-donor harmonisation mechanisms in Mozambique. It also seems inevitable that, as long as there are 'underlying principles' relating to governance in the government-donor GBS contract, there will be calls for a monitoring and dialogue process around these. This puts some member states donor agencies in a difficult position in trying to reconcile their development policies with their EU obligations under the Cotonou framework. As a result, DELMOZ has not been able to apply its 'opportunistic' approach to EU coordination in this instance.

Macroeconomic support and the variable tranche

Budget support is an increasingly important part of the EC's development cooperation with ACP countries: commitments for budget support operations doubled between 2000 and 2004.³⁸ In Mozambique, the proportion of macroeconomic support in the country portfolio stands at around 50%, and it is likely to remain at about this level for the period of the 10th EDF under the next CSP (2008-13). The EC uses a conditionality model based on a combination of fixed ('all or nothing') and variable tranches for its budget support programme, both of which are subject to a minimum of general conditions related to macroeconomic stability, the implementation of a Government-owned poverty reduction programme and improvements in PFM. The variable tranche introduces explicit and transparent performance-based criteria to define the EC's GBS disbursements, and is delivered in varying amounts up to a predetermined ceiling depending on government performance in relation to a number of indicators. These indicators focus half of the variable tranche on outcomes in the social sectors (health and education) and half on PFM performance. Four indicators are used for each of the three areas.

The performance focus of the variable tranche relies on GoM data collection and aggregation for the quantitative indicators. Since these indicators need to be measured on an annual basis, they are based on administrative data collected by sector civil servants (e.g. teachers and nurses), rather than statistical data collected by survey on a less frequent basis and at greater cost (but generally considered to be more reliable). There is therefore a possibility that the data is prone to errors in the collection and aggregation process. DELOMOZ states in its budget support agreement that 'During the past years, no substantial doubts have been voiced with regard to the credibility of the data. Should this be the case, the EU reserves the right to ask for additional data or assign consultants to analyse the data presented by the Government of Mozambique' (DELMOZ, 2006a). To this end, DELMOZ has commissioned supplementary data analysis, including a recent study that highlighted scope for errors in some administrative data (Holms and Martinez, 2005). The study also found that there were strong existing programmes of donor support to the National Statistics Institute and following this, DELMOZ has sought to concentrate work to strengthen statistical capacity at sectoral level.

In addition, the large size of the GBS component of the EC portfolio coupled with the strong emphasis placed on key administrative data by the variable tranche makes the Poverty Analysis and Monitoring Systems Working Group (where support to monitoring and evaluation is channelled) an area that the EC may consider more active participation were its HR resources to allow it. As the recent Court of Auditors (2006) recommendations suggest, 'In view of its limited resources, the delegation cannot participate to all Working Groups considered relevant for EC, notably on Tax Reform and Poverty Analysis and Monitoring Systems, an area of high importance'. Were additional resources to make such a move possible, any decision regarding participation would obviously need to be taken in the context of the broader division of labour of donor agencies amongst the working groups – it is clearly neither desirable nor feasible for GBS donors to actively participate in all working groups relevant to their support.

Given the importance of GBS in the EC portfolio for Mozambique, it is also important to note that the EC's macroeconomic support has played a prominent and central part in the development of the GBS process from the outset, including holding a permanent position (along with the World Bank) on the Troika+ coordinating

³⁸ For a comprehensive review of budget support in EC development cooperation, see Schmidt (2006).

body of GBS donors, chairing a number of sectoral working groups and generally investing considerable resources into the establishment and management of the process, adding important momentum to the GBS process, and acting as a force for donor harmonisation and alignment.³⁹ In doing so it has also ensured that performance based approach to GBS disbursement is an integral part of the GBS MoU. Moreover, there was a clear consensus amongst respondents that the variable tranche is being used in a predictable and responsible manner. That is, the variable tranche's impact on the predictability of the EC's GBS flows is reduced by the fact that the performance mechanism operates over a multi-year cycle (performance targets are set jointly by GoM and the PAPs in year n, implementation is undertaken in year n+1, measurement of results and their implications for the size of the variable tranche are determined and communicated to the government in year n+2, disbursement – reduced or otherwise – is then made in year n+3). In Mozambique, all variable tranche indicators come from the PAF indicators and are determined jointly by GoM and donors, a commendable step in the alignment process. The EC has also resisted the temptation to use the variable tranche 'in year' to exert leverage on policy choices. Finally, since other donors (e.g. Denmark) are considering moving towards performance-based GBS mechanisms, the EC has a clear role to play in exemplifying and disseminating best practice in the application of such measures. Indeed, this process is gathering momentum in Mozambique and DELMOZ is also considering introducing a variable tranche format at sectoral level.

5.5 Internal coherence of EC assistance in-country

The evaluation of the EC's 1996-2000 country strategy noted that 'the public image of the EC in Mozambique is one of a slow donor with complex procedures and long delays' (Montes et al., 2000). However, substantial progress has definitely been made in subsequent years in making EC aid to Mozambique faster and more flexible, as is reflected in the findings of the more recent formal evaluation of the EC CSP in Mozambique for the 2002 – 2007 period (Clifton et al., forthcoming).

Human resource management

An area for attention is the degree to which human resource management affects the Delegation workload. As an example of this, the recent contractual rotations of the Head of Cooperation and Head of Mission left the positions vacant in 2005/06 and placed a severe burden on the existing personnel. While the Delegation as a whole continued to function during this period, assuming all its responsibilities, this is a testament to the exceptional work of the personnel in the Delegation and should not diminish the need for better support from headquarters in managing staff rotations in future. While it is unreasonable to expect the EC to assume a leadership role in every area in which it operates, and the EC's central role in the donor H&A process helped to mitigate the effects, the Delegation would have had more time to dedicate to key initiatives such as the roll-out of the ODAMOZ database and CS-19 process had it not been for this strain on available resources.

Secondly, as the composition of the EC portfolio moves increasingly towards GBS and SBS under the 10th EDF, the extent to which the DELMOZ organigram (included in Annex 6) reflects the overall balance of the aid programme is an area for attention. This was identified as a key issue by a Court of Auditors report (2006) which stated that staff resources for GBS: 'are insufficient given the volume of budget aid to Mozambique (50% of NIP of 9th EDF), the complexity of issues involved in macroeconomic and public finance management reform and the workload involved in the participation to the two annual monitoring processes (Mid-Year Review and Joint review)'. The report goes on to note that: 'The monitoring of public sector reform requires various expertises, and the Court's audit mission of October 2004 had suggested that it would be useful for the delegation to complement the team of economists with additional expertise in certain areas of public finance, such as in audit. This suggestion has not been followed.' While it should be noted that the EC has chaired the Audit Working Group and is an active participant in this area (providing support to both internal and external audit functions of GoM), new resources in this regard (which the Delegation would welcome) are not envisaged.

It is also evident that DELMOZ would benefit from more flexibility in the extent to which staff are able to travel within Mozambique. This in part relates to the workload and associated prioritisation decisions made and is in part a technical issue relating to mission credits (items within the budget provided to finance staff travel). Since the mission credit allocations are not pooled in one large fungible lump, the system leaves

³⁹ In recent years the EC has chaired the justice, agriculture, roads, health, audit, trade and peer review working groups.

some staff with surpluses and others with no funds to finance travel. As a result of these factors, relevant staff in DELMOZ have not been able to travel within Mozambique in recent years to visit PFM and M&E systems operating outside the capital, relying instead on delegated analytical work. While this reduces the administrative burden on the government, it may be advisable to balance this practice with some field visits.

In adjusting to the demands of a changing aid portfolio, there are some useful tools newly available to the Head of Delegation, such as reallocating 25% of a given member of staff's time and recruiting contract agents to support specific short-term needs. As an example of the latter, the Delegation had recently recruited a contract agent to help deal with the extra administrative burden of the EC role as focal donor in the health sector, which it had assumed for 2007. Secondment is also a useful tool that allows staff with differing experience and expertise to work in the Delegation. DELMOZ is at present benefiting from additional diplomatic expertise as a result of a staff secondment from Portugal, for example. Overall, though, the Delegation would benefit from increased management discretion and support from headquarters.

Sector expertise

The move towards GBS and SWAs and the associated emphasis on policy dialogue has dramatically increased the demand for GoM-donor dialogue and led to the creation of a large number of working groups. The GBS process included 29 working groups in 2007 and, in the health sector – where the EC as focal donor is leading an important exercise to review the number and functioning of working groups – there are a further 10 government-donor working groups (DELMOZ, 2007). In seeking to improve the working group system an important area for attention is the availability of sector experts amongst donor representatives. Also, many interviewees observed that the nature of sector dialogue is dominated by discussions of process at the expense of substantive dialogue, with donor representatives who are at times regarded as:

... generalists rather than sectoral specialists. As a result, discussions in coordination meetings move away from strategies about how to improve education to how to improve public finance management (PFM). Both PFM and harmonisation are important but they both have the objective of improving service delivery. This latter goal seems to be getting short shift, in favour of processes and intermediate activities aiming at system change (Hauck and Baser, 2004).

Box 7: Recent changes in staffing of EC delegations

Prior to 2000, EC delegations were typically much smaller than they are today and were largely comprised of staff recruited on 'individual expert' contracts, many of whom had many years of experience in their respective fields. From 2000 onwards, the deconcentration process relocated many permanent civil servants from Brussels to the delegations, placing the experts under more direct supervision by more generalist managers. Moreover, in a subsequent EC-wide change, the individual expert contracts were phased out altogether and replaced by a 'contract agent' model, typically less well paid than the individual expert deals. As a result, some delegations lost experienced experts (often with over ten to fifteen years of experience), who were replaced by somewhat less experienced contract agents (in terms of years of work in the area). While the net results of deconcentration have undoubtedly been broadly positive, especially in terms of progress towards inter-agency harmonisation and alignment with government priorities at a national level, this is one area some delegations may need to monitor carefully (i.e. in terms of access to very highly experienced specialist expertise). While there are specific *concours* available for specialists such as engineers, there is an overall emphasis in recruitment on generalists. In the area of development operations, this move has coincided with the rise of GBS, SBS and SWAs which, in theory at least, place a high premium on sector expertise in order to make the best contribution to dialogue. The recruitment of high quality general managers is universally accepted as essential to the functioning of a civil service: the challenge for the EC here is to ensure that this is balanced with the right type and level of expertise.

It should be stressed that DELMOZ was regarded by both donor and GoM interviewees alike as consistently excellent in terms of the quality of staff inputs into the sector working groups in which they participate. However, recent reforms may, in the longer term, pose challenges for the Delegation in terms of the available expertise (see Box 7). It is too early to say conclusively what the net impact of these processes has been.⁴⁰ The contract agent system has yet to undergo its first full 'rotation' and, as discussed, the contract agent model was cited as having been a very useful innovation that increased Delegation flexibility. In addition, EuropeAid has sought to build key skills in recent years through high-quality training made available to staff (both in the form of courses developed and delivered at headquarters level and those initiated and run in-country), which was well regarded by DELMOZ interviewees – indeed, expanding this training would be one option well worth considering. A regional grouping of economists that comes together

⁴⁰ The deconcentration process saw the DELMOZ staff complement increase from 22 to 59.

to discuss issues and share experience related to budget support operations is also undoubtedly a very useful innovation. There are also procedures whereby staff from headquarters come to Mozambique to support DELMOZ at key times (such as during the joint review, when a PFM expert is often sent). On the other hand, DELMOZ is constrained in the extent to which it can contract expert advice on specific issues, as (for contracts of less than €200,000) it has to source the work from a small group of Framework Contract companies, which restricts the pool of eligible consultants. In recent years, some reports commissioned by DELMOZ on strategic issues through this system have been regarded as weak.

5.6 Key lessons emerging and considerations for the EP

On **alignment**, progress is difficult because of the lack of government leadership and, in particular, the fragmentation of its aid management functions coupled with weak inter-ministerial coordination. Overall, the EC has achieved very close alignment of its activities for the 10th EDF (2008 - 13) with GoM priorities. In this regard, designating MINEC as the primary institutional partner for ACP-EU relations and the co-management of EDF funds has been an important step in coordination and GoM ownership of activities. However, there exists a trade-off between these gains and the speed with which EDF funded activities can be implemented, which might be addressed through greater decentralisation of operational responsibilities to the recipient GoM ministries or agencies. Further, there are a number of ‘unprogrammable’ funds which are inherently very difficult to align with government priorities because they are introduced into the portfolio outside the normal programming cycle and are often managed at Brussels level. Some (such as support to non-state actors) lack a thematic orientation, although in this case DELMOZ now has much more say in project choice than in the past.

On sector alignment, DELMOZ has made excellent progress that provides clear models for good practice in areas such as the SISTAFE common fund (a well regarded model of sector H&A in support of a complex intervention), health and agriculture. These sectors – in which the EC played a pioneering role – have been drawn upon heavily in the design of support to other areas, with the experience of SISTAFE support being used in the setting up of a common support to the ATM and early PROAGRI experience feeding into GBS design. High transactions costs associated with SWaps for both GoM and donors alike make the ECs strong support for and advocacy of GBS and SBS (in agriculture, health and roads) stand out as particularly important contributions to H&A. In providing this support, DELMOZ has had to work hard to successfully mitigate the impacts of some cumbersome procedural issues in order to maintain its sector alignment, such as in dealing with the temporary suspension of finance via common funds in 2006 (an issue which has now been resolved). Another issue that cannot be overcome at country level alone is the requirement set out in the Cotonou agreement regarding tax exemptions on EC aid to ACP countries. Both of these examples illustrate the importance to the EC and EU member states of ensuring that the provisions for the implementation of the EDF are sufficiently flexible to allow the Commission to play a meaningful role in delivering the commitments of the PD.

As regards **harmonisation and coordination**, DELMOZ has sensibly adopted an opportunistic approach to coordination of EU member states’ activities. Where donor coordination mechanisms already exist (e.g. G-19, CS-19), parallel mechanisms will not be created. However, where gaps are identified, the EU group can be used to good effect. The development of ODAMOZ is an excellent example of this. It represents an area where a gap was identified and the EU member states’ grouping was used to initiate a reform that now encompasses almost all donors and is in the process of being transferred, albeit slowly, to government management. Moreover, with continued support from the EC, ODAMOZ is now being amended to fit more closely with government planning and budgeting needs. The EC’s participation in harmonisation and coordination activities was placed under heavy pressure by HR management procedures in recent years, and the exceptionally hard work of Delegation staff during this period should not hide the fact that better support from headquarters is warranted in ensuring that this is not repeated in future. Still, it is striking what DELMOZ has been able to achieve in spite of this, including assuming and maintaining a central role in the management of the GBS process as a permanent member of the Troika+ as well as .

Moreover, there may well be scope for DELMOZ to pursue a more systematic coordination role in future in the context of the recently launched EU Code of Conduct and the need for guidance of new member states’ aid activities (and those of EU regions). Also, as performance based approaches gather momentum, it could also use its accumulated experience with the variable tranche model to inform other donors who might look

to adopt such an approach, thereby helping to minimise its potentially distortionary effects (e.g. on predictability). However, the difficulties in reconciling the Cotonou framework EU – GoM political dialogue with the desire of some PAPs (including some EU member states) to introduce political issues into the GBS dialogue process shows that it is not always possible to reconcile the fact that DELMOZ is actually a political entity with strong donor characteristics, with the pragmatic and consensual avoidance of duplication or the ‘opportunistic’ approach.

In terms of **internal coherence**, DELMOZ finds itself constrained by conflicting forces: i) an increasingly large budget to disburse in the forthcoming 10th EDF; ii) the use by the EC of unprogrammed items to disburse funds (i.e. special facilities, trust funds and budget lines); and iii) a relatively rigid personnel complement, with a very heavy workload in key areas such as macroeconomic support. More discretion and flexibility for the Delegation in terms of managing human resources and determining where and how aid is spent would make the EC portfolio more focused and coherent and facilitate its alignment with government priorities. The Delegation’s potential lack of access to expert analysis is also an area to monitor, especially when Framework Contracts limit the quality of external consultancy advice. This comes at a time when an increasing emphasis on GBS and SWAPs requires expert knowledge to support substantive dialogue with GoM.. Expansion of the provision of well-regarded training programmes may be a go some way to addressing these issues, whilst avoiding adding participants to already over-burdened working groups.

CHAPTER 6

EFFORTS TOWARDS ENHANCED EC AID EFFECTIVENESS IN PERU

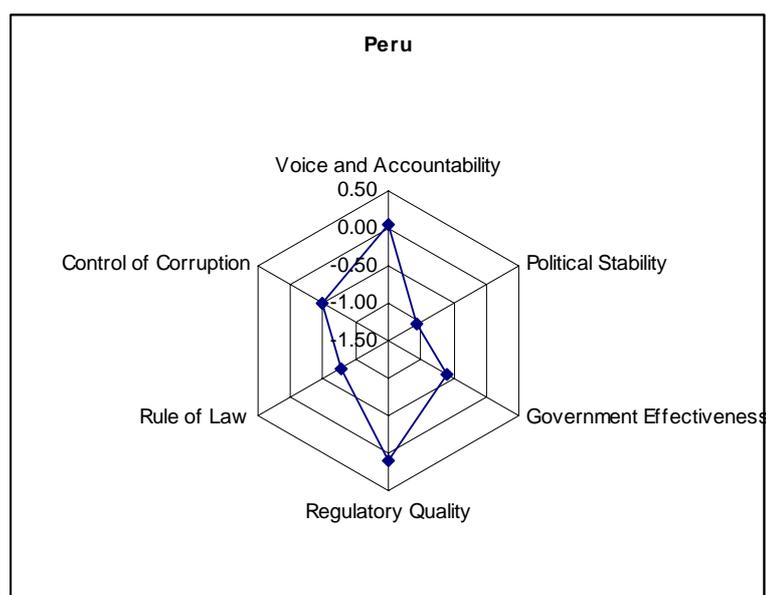
6.1 *Background: country context and aid context*

Political and governance issues

After a decade of ‘authoritarian democracy’ (1990-2000), Fujimori’s regime left a mixed legacy of a stable economy, a more efficient state and a defeated Shining Path combined with widespread corruption in the higher ranks of government and political instability. After Fujimori left power in 2000, a brief transitional government paved the way for general elections in 2001. Since then, two democratic regimes, Toledo (2001-6) and García (2006-11), have been in power, struggling with Peru’s many problems.

A balance of the past seven years in terms of governance issues shows some progress in state modernisation and decentralisation, a renewed legislative (with over 90% of its members in office for the first time) and a stagnant judiciary system. According to World Bank governance indicators (see Figure 7 below), government effectiveness, regulatory policies and voice and accountability show better results than corruption, rule of law and political stability.

Figure 7: World Bank governance indicators for Peru, 2005



Key changes in state reform are the decentralisation process, greater transparency in public spending and independent regulatory bodies for privatised public companies (communications and energy). The EC is mainly involved in supporting the decentralisation process. However, the lack of a specific counterpart from the government of Peru (the National Council for Decentralisation was deactivated a few months ago) makes coordination and negotiations very cumbersome. The decentralisation process is struggling with the lack of local capacity, inexperienced local administrations and reluctance of many central government sectors to share their power and resources. The quality of human resources in the public sector is diverse, with greater political independence and technical competence in the economic and productive sectors (finance, central bank, commerce, industry) and less experienced and more ‘political’ ranks in the social sectors (human development, health, education and social programmes). The current ‘austerity policy’, which has reduced public salaries by 25-30%, has pushed many of the most experienced and independent public officers into the private sector. This has opened the way for political appointees with considerable less experience and technical capacities. Despite recent regulations, Peru lacks a public career system; top-ranking posts suffer from high turnover rates.

Judiciary and police reforms have failed despite repeated attempts during the past seven years and considerable financial and technical support from several donors (World Bank, IDB, USAID and EU). A special Commission for the Integral Reform of the Administration of Justice (CERIAJUS) with public and private participants handed a comprehensive reform plan to the government in early 2004. Very few of its suggestions have been implemented (Defensoría del Pueblo, 2005). The main obstacles seem to be political and not technical: too many vested interests. As such, poor results regarding corruption and the rule of law in the World Bank assessment are not surprising.

Economic development

GDP per capita has grown consistently at over 2% during the past five years. The main engines of the economy are the primary sector (especially mining and energy) and exports (agricultural products and textiles) (MEF, 2004). Growth poles, led by mining and non-traditional agriculture, are having important impacts in some rural areas, while the urban economy is lagging behind. Great hope has been set in the free trade agreement with the US, which seems to be in its final stages, although independent research shows that, at least in the medium term, impact on GDP would be modest and concentrated in the modern sectors of the economy.

Although open unemployment is modest (7-8% of the working age population), underemployment affects over two-thirds of the workforce. This limits the tax base and tax pressure, which is under 13% of GDP (MEF, 2004). Public debt amounting to US\$2,500 million per year is concentrated in the next seven years; 43% is denominated in Euros and Yen; 50% has variable interest rates and 70% is owed to the Paris Club and multilateral organisations (ibid).

Poverty and social indicators

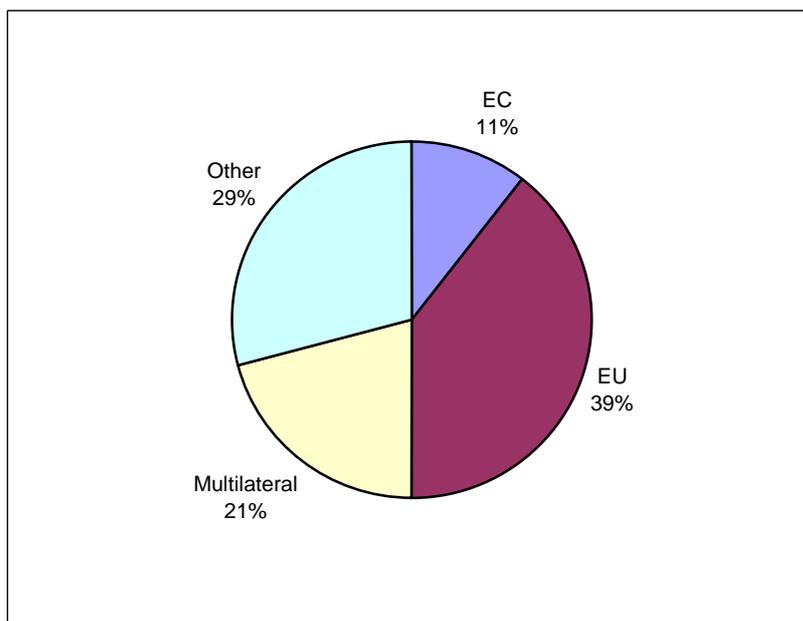
Poverty rates have changed very little in the past decade, despite rapid economic growth. Around half of the total population is poor (US\$2 per day/person) and almost a fifth is extremely poor (US\$1 per day/person). Poverty is pervasive in the dispersed rural areas (Aramburú et al., 2006). In addition, access to basic public services such as water, electricity and education remains extremely skewed; quality is poor. Indices of social exclusion are very high (ibid). The levelling potential of public goods and services is absent for important sectors of Peruvian society.

Levels of aid and aid dependence

Peru, classified as a lower middle-income country, has a lower growth rate in aid than African and Eastern European countries: aid flows have diminished as a percentage of GDP from 1.6% between 1984 and 1993 to 0.8% between 1994 and 2004. In absolute numbers, however, external aid has shown a modest growth since 1994. International cooperation funds have grown from US\$261 million in 1994 to US\$390 million in 2004 (APCI). Between 1995 and 2004, the Latin American and Caribbean (LAC) region has received around 10% of total non-refundable aid for development (US\$53,158,620); Peru's share is 10% of this total (US\$5,321,840) (APCI, 2005). Over 36% of these funds have gone to infrastructure; almost 20% to competitiveness and labour projects, and a little over 12% to environmental projects. Investment in human capacities and social protection lags behind.

During 2005, Peru received US\$548.6 million as non-refundable international cooperation funds (NRIC). Official sources accounted for 86% of this total. Overall, bilateral sources increased their contributions more than multilateral ones between 2004 and 2005.

Major bilateral contributors to NRIC in 2005 included: the US (45.7%), Spain (14%), Germany (6%) and Italy (4%). Key multilateral agencies for NRIC were the EC (10%), the World Bank (21%), GFATM (15%), UNICEF (13.3%) and the IDB (4.6%) (see Figure 8 below) (APCI, 2005).

Figure 8: Breakdown of major donors to Peru, 2005

A breakdown by the MDGs for 2005 shows that 33% of total NRIC went for Goal 1 (eradicate extreme poverty and hunger); 12.4% for Goal 7 (environmental sustainability); and 9.3% for Goal 8 (fair trade and world associations for development). The other five goals received between 3% and 4% of total NRIC (APCI, 2005). Two things draw our attention: the significant amount of funds going to non-MDG goals (30%) and the modest level of support to goals related to education, health and gender equity.

The Peruvian Agency for International Cooperation (APCI),⁴¹ created in 2002 as the official agency for donor coordination, has done a remarkable job in the last few years to bring about some order by articulating demand and supply of NRIC in Peru. Its assessment (APCI, 2005) of donor assistance using DAC codes for 2005 reveals that of the US\$584.6 million:

- 38% was for social infrastructure and services, especially education, government and civil society, health and sanitation.
- 15.2% was in support of productive sectors (agriculture, forestry and fisheries).
- 11.1% was for multi-sectoral crosscutting activities.
- 2.2% was for economic and service infrastructure (roads etc).
- Almost 30% was for sectors not definable under the DAC coding system.

The evidence from both the MDGs and the DAC classification suggest that greater precision is needed to define and monitor the use of NRIC funds.

EC aid contributions

Most EC aid is channelled through the DCI, including bilateral projects, support for the Andean Community (CAN) and, in the near future, GBS and SBS grants. There are four other channels of EC aid, albeit with lower funding ceilings. The first is the co-funding mechanism that involves an international and a national NGO (around €2-3 million). The second is for environment and tropical forests projects (around €2-3 million). A third channel is for projects related to gender and human rights; these are small projects of around €100,000 each. It is up to the EC Delegation to select these, with approval by Brussels. The fourth channel is described as ‘alien projects’; EC staff in Peru feel that, while they have some oversight responsibility over these, they have little control over their shape and approval procedure. They were described as sectoral projects or ‘twinings’. A case in point is the €300,000 given to Labor, an NGO dealing with mining impacts, and the ALBAN projects with universities for professional training.

⁴¹ APCI is the government agency dealing with grants and technical cooperation. It is functionally part of the Ministry of Foreign Affairs but is presided over by the Secretary-General of the PCM. It was created by a government initiative. Later in 2005, the EC through the FORTAPCI project supported capacity building of APCI.

Turning now to contributions from the EC for 2005, the total amount was US\$54,822,644. Of this, 19.4% (US\$10.65 million) was in support of the decentralisation process; 14.4% (US\$7.88 million) for environmental projects; a similar amount (US\$7.87 million) for health projects; 12% for social protection (US\$6.63 million); and 10.6% (US\$5.84 million) for competitiveness and labour programmes.

Two pertinent observations are that the weight given to the decentralisation programmes is directly in tune with both the current and previous government priorities and that the funding priority given to environmental sustainability is not related to priorities of the current administration, which is notoriously lacking in environmental and sustainable development programmes and policies. Support for non-priority areas by the EC stems from two sides: older projects which are still operating and non-DCI channels which are managed by NGOs, as explained below.

Between 1999 and 2001, EC cooperation was discontinued (except humanitarian aid), owing to increasing evidence of corruption and authoritarianism under Fujimori. An MoU for 2002-6 reinitiated grants from the EC for a total of €86 million, of which around 15% was earmarked for judiciary and institutional reform; 60% for socioeconomic development projects; and 25% for regional integration, mainly in support of the CAN.

A new MoU between the government and the EC has been signed for the period 2007-13 to the tune of €132 million, a significant increase, of around 30%, over the previous cooperation cycle. According to ALA guidelines, two major areas will be supported: support for a state based on laws and governability (20% of the budget starting in 2007), and support for integrated social development in specific regions to reinforce social cohesion (80% of the budget; half starting in 2008 and the other half by 2010). Specific mention is made of the PD and to harmonisation processes through reinforcement of the Donors' Forum, institutional strengthening of APCI and a move towards SBS and GBS (although project-based funding is also mentioned). The stage is set for implementation of the PD but, as discussed in the following sections, progress so far has been uneven. A long and complicated path still lies ahead.

6.2 Country progress in developing a national development strategy and ownership

This section attempts to discuss briefly advances and barriers facing the aid effectiveness agenda in Peru, as embraced most recently in the PD.

Country development priorities

Peru has no lack of development plans and programmes. In fact, quite the contrary is true: APCI has identified 70 national, sectoral and regional development plans, all of which have official backing. Starting at the top, the Prime Minister's Office (PCM) has a special taskforce working on the MDGs to qualify for the USAID Millennium Fund. Independent researchers take the position that some of these goals do not reflect the real challenges facing Peruvian society, where the main problems are equity and socioeconomic inequalities. A second national development mechanism is the National Agreement (Acuerdo Nacional – AN), spearheaded by Paniagua's transitional government in 2001 and bringing together government, political, business, labour and academic representatives to agree on long-term state policies. This group has identified 31 long-term policies, with a host of programmes and over 800 indicators. Widespread opinion among interviewees was that all attempts at establishing priorities for these 31 state policies have failed and are doomed to fail, since the political cost of this exercise is excessive. The strength of the AN is in joining very diverse interests and actors. By the same token, it is also a fragmented and loosely connected group unable (or unwilling) to set priorities. It could be expected that each administration would use this platform to establish its own priorities, but this does not seem to have been the case for the two last administrations.

A third structure, created during the transition government (2000-1), is worth considering: the Coordination Groups for the Fight against Poverty (MCLCP). These are decentralised and bring together key actors from civil society, religious organisations, government and local authorities. The MCLCP have been largely responsible for producing regional and local development plans in a participatory manner. Their main weakness is that they have no real control over public spending or aid and act only on an advisory basis. However, given their decentralised structure and credibility, they could become strategic allies for EC

cooperation in getting aid to regional and local levels of government, especially in rural areas. Currently, the MCLCP is not a grant recipient. A new president is being appointed, and this could be an opportunity to explore closer ties between the EC and this highly respected organisation.

Much of the proliferation of particular development plans and programmes is rooted in history. Peru's traditional state structure has been based in strong sectors with recent, rather weak, attempts to join them up through crosscutting components (such as poverty alleviation, environmental sustainability, gender equity, ethnic inclusion, etc). Given that each of these sectors has its own budget approved by Congress, they operate as independent organisations with weak coordination mechanisms. This is true especially of the social sector, where over 75 programmes coexist in charge of 28 different public organisations and institutions. Institutional fragmentation favours a one-to-one approach model to international aid in pursuit of 'the dream of their own project'.

A recent attempt at providing a road map for social policy is summarised in the MMM (Multi-annual Macroeconomic Framework) produced by the Ministry of Economy and Finance (MEF) in 2004. Four key guidelines for public social investment are presented (MEF, 2004: 14-15):

- i) Reduce losses in human capacity, by focusing on child and maternal health;
- ii) Support development of capacity through improved access and quality of secondary education, intermediate health services and sanitation;
- iii) Promote investment in infrastructure, information and technical assistance to build capacities and facilitate market access;
- iv) Temporal measures for maintenance of public services.

Public investment projects above 10 million soles (US\$3,155,000)⁴² need to go through MEF's National System for Public Investment (SNIP), which is currently under criticism for its paucity in promoting development, especially from the regional authorities. However, this system allows MEF to exert control over public investment projects.

With the exception of AN, none of these plans involves direct consultations with non-governmental actors. As far as we are aware, consultation or wider participation for the PRS are not being considered or planned. In summary, despite a host of development plans and programmes, Peru lacks a PRS which is tied to the budget, involves wider participation and is mandatory for public spending.

6.3 Donor progress on alignment

Most donors operate in the context of the MDGs, which have been promoted and disseminated, especially by UNDP. The majority of public institutions are also aware of the MDGs but, as explained above, a longstanding tradition of sectoral bilateral relations with donors and a host of approved plans and programmes work against alignment with national priorities, both for recipients and donors.

The 'split personality' of the current official arrangement does not help; loans are closely supervised and controlled by MEF; grants are APCI's business and are monitored loosely, if at all. To make matters worse, the level of coordination between these two public institutions is weak. Two other aspects of Peru's public administration undermine both ownership and alignment: high turnover rates among the higher ranks of public administration and a rigid budgeting system, under which over 80% of allocations are for current expenditures (mostly salaries and services), based not on results and performance but on historical levels.

In this context, it is not surprising that donor alignment is partial and slow to happen. Champions in this effort are the EC, UNDP and APCI. Less enthusiastic support for alignment seems to be coming from three types of donors: the political players (USAID and Japan); the development banks (World Bank, IDB and CAF – the Andean Development Corporation); and the newcomers (Korea and China). For different reasons, these countries/organisations favour bilateral relations and have their own agenda dictated by their own mandates and past performance.

⁴² This amount has been very recently (June 2007) raised from two million soles (US\$631,000), given political pressure from regional authorities and President García.

However, some progress is evident, spearheaded by APCI, the EC Delegation and UNDP. A key instrument is a matrix of commitments, sources and themes developed by APCI, with technical assistance from the EC. This matrix is updated annually with the information provided by donor sources, to which the EC Delegation and European countries seem to comply the most.

A second valuable instrument for donor alignment and coordination is the 12 strategic goals of the National Policy for International Cooperation (NPIC) produced by APCI in 2005. These goals were based on a thorough analysis of a large number of key official development strategies and plans to capture common issues and priorities. As expected, there were many coincidences, so that 12 development priorities grouped in four major areas (human security; institutional development; human development; and sustainable competitiveness) were identified. APCI is struggling to use these instruments to align NRIC funding. The EC in the new MoU is committed to supporting activities in these priority areas, not a difficult task given its comprehensive and broad character. As mentioned, the EC has been supporting APCI through the FORTAPCI project (Project for Strengthening the APCI), including identifying and enrolling experts to develop both the matrix and the development strategic goals.

EC and other donors' progress on policy alignment

Regarding alignment of EC aid with national priorities, results are mixed. The EC Delegation has now an officer specifically in charge of coordinating international cooperation. The aid matrix (using DAC classification codes), regular meetings of the Donors' Forum, whose presidency rotates every six months, as well as thematic taskforces are all valuable instruments for alignment. However, one of our informants from the EC Delegation felt that momentum for alignment had been lost in certain areas such as poverty alleviation. On other issues, such as water and sanitation and human rights, alignment to national priorities and joint work among donors was faring better. The health of such groups seems to be related to clear and strong counterparts from the government and to the level of political priority given to the subject area. The EC is active in five of these taskforces: three on governability, one on water and one on the environment.

However, of 16 projects for which detailed information was provided by the EC Delegation, only two of the EC/LAC regional projects⁴³ and four (highlighted) out of nine projects with the government⁴⁴ address MEF priorities directly. No specific NRIC projects were related to protecting children's health in the first years of life. Since infrastructure is not supported by the EC, water, a government priority, is also absent from the project portfolio. However, nine of the 12 strategic areas identified by APCI are currently supported by EC projects.

APCI, with donor support, especially from the EC, is attempting to coordinate donor efforts. This is not an easy task, given the proliferation of the aid system. APCI has to deal with over 400 cooperating sources; 900 implementing agencies (both public and private); and around 2,500 projects per year (APCI, 2005). Despite increasing funding, average project size is diminishing. It is also not helpful that APCI is regarded by many public and private agencies as a nuisance and at best a front desk, and that it lacks political support and weight in the higher levels of government.

Although alignment with national priorities makes sense as a general rule for international aid, we are concerned with its negative effects on innovation and independent thinking in development policy issues. During Fujimori's regime, for instance, international aid for human rights played a key role in denouncing abuses and violations. A less dramatic but equally significant example of the value of aid independence is the support of bilateral Spanish aid to cultural and historic patrimony. If official priorities were followed, this type of aid would not exist. Thus, it seems to us that a balance is needed between alignment and innovation.⁴⁵

EC and other donors' alignment to systems and procedures

Regarding alignment to national systems, our main conclusion is that loans have benefited from improvement in national management systems and from procedures being handled directly by the MEF.

⁴³ EUROsociAL and CAN-bi-national road

⁴⁴ **PRODELICA, AMARES, AGORAH, JUSPER**, PRODAPP, PROPOLI, APROLAP, FORTAPCI and PENX.

⁴⁵ The EC staff we interviewed did not seem to us to be keen on innovation due to both perceived risks and fragility of counterparts. Thus this issue remains as a challenge for aid effectiveness in Peru.

However, with grants, the scenario is quite different. Despite Peru having a ‘moderately strong public financial management system’ and a PFM score of 3.5 according to OECD DAC (2005), only 46% of aid disbursed is reported in the government budget. Grants are especially underreported in official budgets. What is needed are approved systems and procedures to regulate grant management by public institutions. APCI does not have the mandate (or expertise) to tackle this issue, so the MEF needs to be involved and some legal technical assistance is required. EC and other donor support to APCI could include technical assistance and capacity building.

The tensions that the transfer of grants to local administrative systems entails are quoted in the EC CSP: ‘Interventions under the project modality continue to generate tensions regarding appropriation and sustainability vs. efficiency, timelines and quality of expenditures ... the mandate to transfer administration of funds to the beneficiary have exacerbated issues of compatibility between procurement and hiring procedures of donors and recipients’ (EC Delegation to Peru, 2006).

Our interviews showed that some EU countries (such as Germany) still rely on direct management of project-based expenditures and systems. Project-based grants imply a proliferation of parallel implementation structures. OECD DAC identified 55 of them in 2005 (29 of which were from Spanish aid). This same survey states that only 43% to 44% of grants rely on country systems for budget execution, financial reporting, auditing and procurement. Some of the reasons for this are that many local investments are not recorded or managed by public systems and, interestingly, that many policymakers prefer parallel systems to speed up expenditures and avoid the ‘red tape’ and transaction costs that going through public systems entails. Despite wording in the 2007-13 MoU with the government, we could not find or register any concrete project or initiative from the EC to support the simplification and development of national systems for grant management. However, since 20% of the budget for this new programme will support state reform, it is possible to include this theme as a new area for EC cooperation.

One public official complained that, even if the EC permits transfer of funds and has more flexibility and reliance on national processes, a major bottleneck is the need for co-funding in terms mainly of staff and services. Usually, these costs are not part of a sector’s regular budget and the MEF will not authorise additional funds for this purpose. This forces the recipient organisation to use its regular staff, which imposes on them additional tasks and obligations. This results in reduced effectiveness and commitment to these functions. As usual, the devil is in the details.

Loans are increasingly based on larger programmes and the GBS modality. Grants are largely channelled through specific projects. Thus, grants are more likely to respond to specific demands and are less congruent with national policy priorities. Our interviews also showed that awareness of the PD is much weaker among sectoral officials as compared with those from APCI or the Ministry of Foreign Affairs. It seems that dissemination of the PD has lost momentum in the past year or so, owing perhaps to a reduced effort from APCI in this regard.

6.4 EC and other donors’ progress on harmonisation

Recent developments

Regarding harmonisation, Peru has made some, albeit insufficient, progress towards this goal. Some of the key processes and instruments for donor harmonisation are:

- APCI’s 12 strategic objectives for international cooperation. As stated before, these are based on a thorough review of a large number of international agreements to which the government has subscribed, as well as official plans and strategies.
- APCI’s matrix for NRIC, to which most donors provide current information on funds and thematic areas. Again, this matrix was elaborated with critical support from the EC and UNDP.
- The Donors’ Forum, bringing together EU members.
- Donors’ thematic taskforces (*mesas de donantes*), which started as informal group meetings and have evolved in the past five years into more formal structures. Box 8 below provides an example of a particularly successful taskforce, that on water.
- Bilateral consultation mechanisms, which are used by most donors in an *ad hoc* manner. The EC Delegation has just undergone a lengthy and complex process to approve its 2007-13 country

programme (the CSP). The process started in 2004 and included three consultation seminars with both public and non-public participants and several missions and consultations with national authorities and headquarters.

Box 8: Water taskforce

Started in 2004 as an informal group, this taskforce brings together nine international bilateral and multilateral cooperation agencies involving both loans and grants (the EC is not directly involved because it supports no water projects directly). Led currently by Germany (KfW and GTZ), it seeks to improve aid efficiency in the water sector by sharing information, coordinating projects and learning from experiences. It has also improved policy dialogue with the government, especially the Ministry of Housing. It operates with two platforms: policy dialogue with the relevant sectoral authorities and TWGs. Alignment is ensured by adherence to the 2001 National Sanitation Plan, the National Agreement and the National Strategy for Poverty Alleviation. The taskforce has regular meetings at least every two months and coordination is rotated every six months. This is a clear example of alignment and donor harmonisation.

It must be noted that most of these mechanisms are quite recent, but they have the potential to facilitate compliance with the PD. The first step to harmonisation is having access and sharing reliable information. This much has been accomplished through a joint effort between APCI, UNDP and the EC to develop the donor matrix. However, crucial obstacles remain.

Barriers to harmonisation

As noted above, reporting and management requirements are still donor based. Each requires its own formats, reporting, accounting and evaluation systems. Very little progress has been achieved in this matter. This is related to the prevalence of project-based disbursements. We could not retrieve any evidence of initiatives geared towards streamlining and harmonising reporting or administrative procedures within the EU members, including the EC.

From the demand side, decentralised regional governments (25 of them) are now queuing up for international cooperation. APCI faces a crucial challenge in trying to harmonise and prioritise their demands, given that its structure is heavily centralised in Lima. Stated policy priorities, as shown, are wide enough so that almost every type of project can be funded. As long as APCI lacks political support and weight from higher levels of government, its ability to put some order and sense into international cooperation will remain vulnerable. A closer alliance with the PCM, which presides over APCI's board, is the way to go. Another set of alliances, especially for decentralised projects and programmes, needs to be made with the NGO community which, as noted, implements 49% of grants. The EC has a long history of working with NGOs and could spearhead a closer link between them and APCI. Spain, through AECI (Spanish Agency for International Cooperation), has just launched an initiative to provide technical assistance to APCI for decentralisation. This can be an opportunity for other EU members to buy into this effort and respond to the all the objectives of the PD.

From the supply side, harmonisation is a moving target. It is more realistic to build better coordination among donors step by step, starting with EU members. The EC certainly has the legitimacy to spearhead this effort – the workshop in early June 2006 that brought together all the major players organised by APCI and the EC is proof of this. What is missing is a clearer mandate, including allocation of time, responsibility and resources, for the EC Delegation to get more involved in this task.

Among the major challenges to comply with the PD are:

- Better coordination of joint technical assistance which, according to OECD DAC, involves only 5% of missions.
- Improving aid predictability since, according to the same survey, only 49% of aid disbursements are reported in government expenditure records.
- Initiate the design and implementation of systems for results-based management. This is just being started by the MEF in four ministries (transport, health, education and women's affairs, and human development).
- Develop alliances and procedures for mutual accountability, including systematic evaluation of grants results and cost effectiveness analysis.

Suggestions for harmonisation

As noted before, harmonisation in Peru will have to deal with three types of reluctant players; the more ‘political’ sources such as USAID and JICA, which have their own agendas and constituencies (fight against drugs and in-kind monetisation respectively); the development banks (World Bank, IDB and CAF), whose business is loans and which are facing an increasingly competitive market; and the newcomers (Korea and China), with which trade is growing very rapidly. In this context, improved alignment and harmonisation requires work at three levels:

At the donor level: through strengthening the thematic taskforces, using the water and sanitation taskforce as the model for both loans and grants. Harmonisation needs to move beyond just information sharing, by agreeing on joint technical assistance, funding (such as the only current basket funding for Peru’s ombudsmen – *defensoria del pueblo*) and, eventually, streamlining systems and procedures. These taskforces need to involve authorities from the relevant sectors, APCI (which is currently not an organic member) and also experts and leaders from NGOs. Given its importance and credibility, the EC can lead this process, provided that member countries share the same commitment to the PD.

At the government level: a more integrated mechanism is required to deal with loans and grants, both in terms of policy and process alignment and ownership. It is probably up to the EC and its key members as well as the main multilaterals to facilitate a strategic alliance between APCI, MEF and PCM to keep working for better harmonisation. By combining the weight of loans with the potential strategic value of grants, this task might be more feasible. It is more a matter of political will and alliances than an issue of tools and processes.

At the civil society level: this is perhaps the weakest link for APCI, despite the fact that almost half of grant funds are managed by private organisations. Most every EU member operating in Peru has longstanding and strong working relationships with NGOs, academia and CSOs. They can therefore bridge the gap between CSOs and the government sector, especially in the case of APCI. Among other things, involving local experts and academia in programme design and independent impact evaluation can make aid more effective and document lessons learned to avoid the partial blindness and lack of institutional memory from which many official agencies suffer. APCI could secure the collaboration of independent experts from civil society to represent them in the large number of thematic taskforces that the EC is promoting.

6.5 Internal coherence of EC assistance

In the previous paragraphs, coherence between national development priorities and aid was discussed in terms of ownership, alignment and harmonisation. What remains to be discussed here is the coherence of the EC assistance programme in Peru. The main obstacle to a greater coherence of EC assistance is the project approach, which remains prevalent. The current portfolio includes both previous and new projects, which have tried to respond to changing national priorities. As long as the project approach prevails, it is to be expected that internal coherence of EC assistance will be weak.

The current EC portfolio of seven projects includes two projects on professional training (ALBAN 2002 and ALFA 1993); one project on small firms (AL Invest 1993); another on ITC (PLIS 2001); and three on local communities, involving urban policies (URBAL 1995), Social cohesion (EUROSociAL 2004) and solar energy (EUROSOLAR 2000). Additionally, the EC supports 11 projects with the CAN. Bilateral projects from EU members cover a large range of topics and partners, both from the public and from the non-government sector.

EC support to regional activities (through the CAN and others) is remarkable in a scenario where donor country assistance predominates, missing the opportunity to support regional programmes inspired by the social cohesion model of the EU. Strengthening regional initiatives on common issues (trade, migration, food security, poverty alleviation, standardisation of statistics systems, etc) can improve the coherence of the EC assistance programme.

Regarding the relationship between the EC Delegation and headquarters, our information is one-sided (the Delegation viewpoint) and deals mainly with the need for coordination and delegation of authority. Field staff feel swamped by administrative tasks and project demands with precious little time or learning from

experiences, sharing lessons learned and getting involved in results evaluation. The Delegation has no budget for workshops or travel to encourage south-to-south linkages and thereby become a learning institution. There is also a perceived need for better coordination, given both the institutional complexity of the EC and the diversity and multiplicity of projects.

A final comment relates to evaluation and results-based management. Perhaps one of the weakest aspects of the EC assistance programme is the lack of systematic independent evaluation of project results and impact. True, missions from headquarters periodically evaluate a sample of projects for results. However, there is a lack of time and resources, both human and financial, for systematic evaluation at the EC Delegation level. The challenge for increased coherence is to evaluate and document results, not only on a project basis, but also on lessons learned, for crosscutting components such as governability, poverty reduction, gender equity, environmental sustainability, etc. Although some in-house capacity would be desirable, in Peru as in most lower middle-income countries, there is strong professional and institutional capacity for programme evaluation. This needs to be harnessed and incorporated into multi-annual programming to be able systematically to evaluate the results of EC assistance. The goal would be to reinforce the EC as a learning and knowledge-sharing network to increase coherence and aid effectiveness.

6.6 Key lessons emerging

Regarding **ownership**:

- Availability of national development plans and programs is a necessary but not sufficient condition for ownership. In fact, their multiplicity can hinder prioritisation and encourage dispersion. It is how these plans are prioritised and managed that can make a difference.
- Reinforcing the Donors' Forum, where the EC has particular weight, can be instrumental in helping define priorities and promote dialogue and negotiations with the different government levels. APCI needs the institutional and technical support from the EC both to revive the Forum and to incorporate the MEF and PCM into it. The Donors' Forum needs to involve the higher levels of government in defining more clearly national development priorities and tying them to loans and grants as part of the national budget. The combination of lending and donor international cooperation organisations in the Forum can increase significantly the bargaining power with government. The Forum should in time also become the institutional space for discussion and validation of donor country strategies. This is a tall order: it is hard to teach an old dog new tricks.
- Given that almost half of grants are implemented through NGOs, these need to be part of the prioritisation and consulting process. APCI is alienated from most, for reasons explained above. However, EU members have strong and good relations with this sector and can therefore facilitate a closer working relationship between themselves and APCI.

Regarding **alignment**:

- The EC is leading efforts to respond to national priorities, but compliance is slow and based on the will of individual EU members. APCI, despite having produced valuable technical instruments (guidelines and matrix), lacks the political weight to ensure adherence to these guidelines. Fragmentation between loans (MEF) and grants management (APCI) further undermines ownership.
- A useful mechanism for alignment and harmonisation is the thematic taskforces (*mesas de donantes*). As explained, the EC is involved only in taskforces directly related to its projects. This 'project logic' undermines greater involvement and coordination capacity for the EC.
- More of these thematic taskforces are needed to tackle national policy priorities. The EC Delegation can take the initiative to launch additional taskforces in response to government priorities and donor mandates and interests. This will require additional resources in terms of expertise and staff dedication.
- Alignment to official priorities cannot become a straitjacket. Some room for innovation and creativity is required, especially regarding social policies and poverty alleviation.
- Alignment to national systems and procedures requires first and foremost specific regulations to manage grants that are more flexible, simpler and faster than those regulating loans and public investment. APCI has a long way to go in this area, and will require support. A specific taskforce for grants management could be supported by the EC, involving APCI, the DGPM (General Directorate

of Multi-annual Programming) at MEF and the legal department at PCM as part of current support to the former (FORTAPCI and Spain's new project for the decentralisation of APCI).

Regarding **harmonisation**:

- Harmonisation needs to move beyond information sharing. Several ways to do this include the Donors' Forum and thematic taskforces presented above. Basket funding offers another path, which currently involves several donors supporting ombudsmen. Interestingly, as a result of joint funding, a common procedures manual has been agreed upon to simplify reporting to donors. This experience needs to be evaluated and replicated, since it is the only basket funding currently operating in Peru.
- Joint missions and pooled technical assistance among EC members is also functional to harmonisation. These missions can be tied to needs and priorities defined from the thematic taskforces so that their results can benefit all those involved in specific types of projects. A better job is required at documenting and sharing the results of technical assistance missions among donors and recipients alike, so that a learning process becomes an essential component of project development.
- Additional specific measures for harmonisation involve working towards common timeframes, reporting and financial requirements and a common level of counterpart funding for new projects.
- Sharing a basic format and procedure for CSPs for all EU members can also contribute to harmonisation. The Forum is the ideal space to share CSPs among different donors and can reduce the cost and effort of parallel efforts. This does not imply that all EU members prioritise the same themes or share exactly the same views, but fact finding, consultation and dissemination tasks can benefit from a larger scale if done jointly. This will not be an easy task; country missions protect their 'independence', giving different arguments and reasons. However, there is wide consensus that the EC Delegation should lead the harmonisation process for all EU members operating in Peru, as stated in the proceedings of the April 2007 workshop in Lima.

Regarding **coherence** and **results-based management**:

- Project dispersion owes to a mixture of old and new initiatives, changing policy priorities and the predominance of uncoordinated bilateral relation with different government agencies and levels.
- To deal with these problems, the MoU for EC support for the period 2007-13 (approximately €132 million) emphasises the move towards SBS and GBS, although recognising that project-based support will still be an important part of EU grants. Most local actors feel that the move towards these grant modalities will be a slow process, one which requires caution and close monitoring.
- The new EC programme identifies only two large areas, state reform and social integration in specific regions. Narrowing down key areas for support has the potential to increase the coherence of the EC portfolio. These thematic priorities translate into specific challenges: decentralisation is perhaps the most important in Peru's current situation. It is not only a matter of decentralising expenditures, but of capacity building of regional and local human resources and institutions. Money is not a scarce resource at these government levels; human and institutional competences for programme and project development are the main constraint. The EC can make a difference by stressing technical assistance, using not only its own experts but also national and regional professionals, universities and training centres to improve the quality of public management at the regional and sub-regional level.
- Results-based management requires a change in public sector culture. The first steps have been taken by the MEF, as explained above. The EC has to follow suit by reinforcing its evaluation capacities and mandate at the country level. Mixed missions, involving both EC headquarters and local experts, should be an integrated component of project and programme design and approval. Funds need to be available not only for systematic results and impact evaluation but also for dissemination and sharing of experiences and lessons learned. More ambitiously, the EC can support, with the participation of national universities and think tanks, a report card system to tally progress on national development priorities.

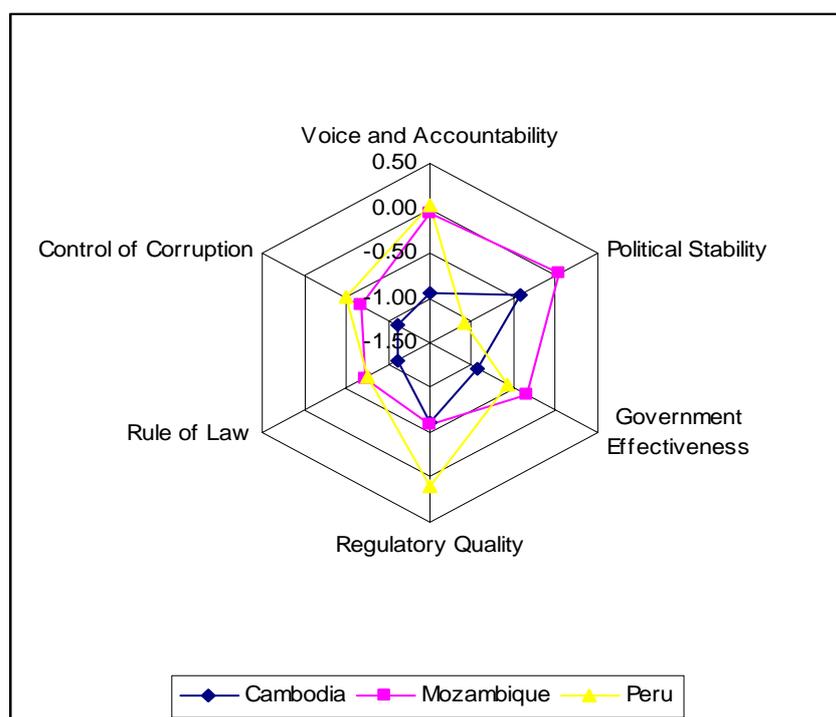
CHAPTER 7

COMPARATIVE ANALYSIS OF CASE STUDIES AND EMERGING LESSONS

As discussed in Chapter 4, the case studies selected are, by design, very different from one another. Mozambique is an extremely poor and aid-dependent country, whereas Peru is a middle-income country in which aid does not play a large role. Cambodia, for its part, is a core fragile state which is still very much struggling with post-conflict reconstruction issues and also remains very poor.

On the other hand, as the respective chapters have shown, all three countries confront important governance-related challenges which, since the 1990s, donors in general, and the EC and bilateral EU members in particular, have recognised as perhaps the major barrier to the development of poor countries (see Fritz and Rocha Menocal, forthcoming, among many others). Figure 9 below shows the latest World Bank governance indicators available for Cambodia, Mozambique and Peru along six different dimensions.⁴⁶ As can be seen, all three countries have relatively poor scores in terms of control of corruption and the rule of law, and governance effectiveness remains weak in all three, though it is considerably weaker in Cambodia than it is in either Peru or Mozambique. In terms of political stability, Peru emerges as the least stable of the three countries,⁴⁷ whereas Mozambique seems to have found a relative measure of stability. Cambodia is somewhere in the middle. As for voice and accountability, Mozambique and Peru score relatively well, but Cambodia does very poorly. Finally, regulatory quality is rather strong in Peru, but needs to be considerably increased in Cambodia and Mozambique.

Figure 9: World Bank governance indicators for Cambodia, Peru and Mozambique, 2005



Source: Adapted by ODI from World Bank governance data from 2005.

⁴⁶ For more detailed information on these indicators see <http://web.worldbank.org/WBSITE/EXTERNAL/WBI/EXTW/BIGOVANTCOR/0,,contentMDK:21045419~menuPK:1976990~pagePK:64168445~piPK:64168309~theSitePK:1740530.00.html>.

⁴⁷ This political instability was particularly evident during the presidential electoral process of 2006, in which Alan García, who ruled Peru in the 1980s during a period characterised by acute hyperinflation and a severe economic recession that deepened the cycle of guerrilla violence and state repression, emerged triumphant.

As described in the preceding chapters, the EU (including both member states and the EC) has been a significant presence in all three countries in terms of development assistance – although there are some important variations here as well. As an ACP country, Mozambique receives aid from the EC mainly through the EDF, as well as some thematic and regional budget lines. Most EC cooperation with Cambodia and Peru, on the other hand, is financed exclusively from the EU budget, including a geographic financial instrument (the ALA programme, which was replaced by the newly created DCI in December 2006) and, as with Mozambique, other thematic and regional budget lines.

The purpose of this section is to highlight some of the common themes and features that come out of the case studies and to distil emerging lessons. These are spelled out below.

The quality of national institutions is essential in promoting (or limiting) the effectiveness of aid

One of the most critical challenges facing the aid effectiveness agenda is how to turn the concept of country ownership of the development agenda into a reality. As has become increasingly recognised in international policy circles, the quality of government institutions (at both the state and the sub-national levels) is a factor of crucial importance in helping to move in the direction of genuine country ownership. Unfortunately, as the three case studies included in this project highlight, it cannot easily be assumed that government institutions in-country are sufficiently strong and effective, and that they have the ability to act in a sufficiently coordinated manner.⁴⁸ In all three countries, weaknesses in government institutions constrain ownership of the development agenda and aid effectiveness more broadly.

In the case of Mozambique, for instance, the case study author argues that, despite the fact that the government has developed planning and budgeting documents, including two PRSPs, the development process remains heavily donor driven. This owes in large part to a fundamental lack of state capacity to fully engage with and/or lead (donor) efforts. Part of the problem stems from the fact that overall government responsibility for aid policy is split among multiple ministries/departments, and this dispersion of efforts – coupled with weak inter-ministerial coordination – undermines state capacity. In Cambodia, the RGC has exerted considerably greater leadership in establishing formal mechanisms for donor coordination, but the level of capacity and commitment across government institutions varies significantly, resulting in inconsistencies in relation to a number of aid effectiveness principles.

In the Peruvian case, government leadership of a national development strategy is hard to identify amid a wide proliferation of development plans prepared by different state entities. APCI, created in 2002, plays a key role in liaising with and coordinating donor efforts and, with the support of the EC Delegation and the UNDP, spearheaded an effort in 2005 to focus development efforts on 12 key priorities. The agency, however, remains rather weak. Among other things, it suffers from limited authority (it can only deal with grants, while the MEF is in charge of loans), poor coordination and communication with the MEF, a lack of technical capacities, and a marginalised political position amidst other state institutions, all of which considerably undermine its overall effectiveness. Its work therefore lacks required ‘buy-in’ from key stakeholders within and outside the government.

In addition, with donor support, including very significant support from the EC, Mozambique and Peru have been involved in ambitious programmes of decentralisation as an integral component of state reform. But, as highlighted in both case studies, institutions at the local level remain particularly weak, beset by a dearth of local management and administrative capacities, as well as by the reluctance of many central government sectors to share their power and resources.

Harmonisation and alignment are crucial for a positive impact on state capacity...

What is at stake in improving the quality of national institutions and overall state capacity is nothing short of creating and/or strengthening state institutions that are more legitimate, more representative and inclusive, and more effective. This is clearly an inherently political, and not merely technocratic, endeavour and also one that needs to be driven by internal actors over the long term (Booth et al., 2006; Fritz and Rocha Menocal 2006). Donors cannot expect to be able to impose reforms from the outside without the necessary

⁴⁸ And this cannot always be assumed in developed countries either.

support from at least some domestic stakeholders. On the other hand, there is a lot that donors can do to accompany – or as has often been the case, undermine – reform processes intended to strengthen government institutions and state capacity more broadly.

The commitments that donors have made under the PD, as well as those espoused by EU member states and the EC in the European Consensus on Development and the EU Code of Conduct, to make the aid system more rational and coherent are laudable. They represent important efforts, at least conceptually, to address some of the most significant problems associated with the weakening of national institutions and state capacity through the aid relationship.

All three of the case studies included in this report analyse in some detail some of the efforts undertaken by the EC, as well as EU member states and other donors, to promote greater harmonisation and alignment in their international cooperation. As spelled out in the case study chapters, some progress can be perceived in all three case studies on both these fronts. Some of the most common initiatives include:

- Formalised thematic taskforces (Peru) or TWGs (Cambodia) to strengthen cooperation between the government and partners and to facilitate technical-level dialogue on particular areas and sectors.
- High-level fora for government-donor interactions: GDCC in Cambodia; Donors' Forum in Peru; G-19 in Mozambique.
- Elaboration of centralised databases providing thorough information on international aid by source and theme (ODAMOZ in Mozambique and a similar matrix in Peru).

In addition, as part of the rationale of strengthening governance capacities and formal institutions, the EC 'has been acting as an international driving force in some international discussions in the last years ... on ... budget support' (Grimm, 2006a: 8). EC aid in the form of GBS rose to nearly 20% of all total commitments in 2005 (EC, 2006a). There has been progress in efforts to move towards the provision of GBS in the Cambodian context, with a handful of donors (including the EC) looking to provide GBS for the first time in 2007. Good practice in relation to GBS is particularly evident in Mozambique. On the other hand, in this particular case, some issues on political dialogue arising from different needs and arrangements embedded in the CPA remain to be addressed in a matter that can satisfy all – and not just EU – donors.

Moreover, as highlighted in all three case studies, progress on harmonisation and alignment has largely focused on establishing fora for discussion and coordination, sharing information, raising awareness of areas of engagement, planning for future aid effectiveness initiatives, and developing joint policy positions where possible. These are all important, but much work remains to be done. As suggested by the case studies, the quality of taskforces and working groups, for instance, remains uneven, and the need to strengthen donor capacity and expertise as well as key government institutions so that they can properly participate in coordination settings and become leaders on the alignment agenda remain central challenges. EC and other donor harmonisation efforts need to be scaled up considerably to include agreements on joint technical assistance and the streamlining of systems and procedures. Without a sustained effort on these issues, it is not clear how the EC and other EU members will be able to implement the division of labour envisioned in the EU Code of Conduct, for example.

... as donors and development agencies can be considerably detrimental

Too often, state capacity in developing countries, which is frequently rather limited to begin with, has been further undermined by the lack of holistic approaches to international assistance in a context of remarkable degrees of aid fragmentation (not only among multiple donors, but also among the actual implementing agents). As such, development assistance can actually prove to be part of the problem and not necessarily part of the solution.

A variety of donor (including the EC as well as others) actions persist in all three countries, which result in considerable institutional collateral damage. The Cambodian case study, for instance, describes how an incredibly fragmented aid system imposes unreasonably high transaction costs on the RGC, drains valuable resources and fundamentally weakens its capacity. In Peru, donor alignment with country systems remains especially weak in the case of grants, and 55 PIUs are currently in place. There is a general feeling in the Peruvian context that it is better to rely on parallel systems to speed up disbursements and avoid red tape. But it is essential for the EC, as well as other donors, to keep in mind that speed and convenience, while very

appealing on a short-term basis, may not help foster state capacity and the building of stronger institutions in the long term. In addition, these practices (donor fragmentation, continued reliance on project modalities, etc) pose serious challenges for the successful implementation of commitments the EC and other (EU) donors have made through the EU Consensus on Development, the EU Code of Conduct and other international declarations on aid effectiveness.

Much of the work that needs to be undertaken to improve donor practice depends on political will and sustained commitment both by national governments and donors themselves. As the case study on Peru highlights, pushing for a simplification of procedures governing grants and the push for GBS in that area will require engaging in very high-level discussions with the Peruvian government but, so far, the EC does not seem too interested in doing so. In a slightly different dynamic, the EC Delegation in Mozambique has indicated that it is keen to see action on abolishing the CPA provision that exempts the EC from paying VAT in-country (a move that would benefit the government considerably by simplifying budgeting and tax administration and speeding the implementation of large infrastructure projects); to do so, Most Favoured Nation (MFN) provisions in the CPA would need to be revised. Thus, if the current situation is to change, it is likely that some kind of intervention from higher EU levels is necessary, and this may be an issue that the EP in particular could pick up.

Very often, the complexity of EC practices and requirements themselves undermines important aspects of the aid effectiveness agenda. Interviewees across the three countries included in this project raised the way in which some EC procedures operate, especially those related to budget lines, as a matter of concern. Thematic and regional budget lines were identified as problematic on several grounds. The generalised feeling across the three EC delegations is that, while they have some oversight responsibility over these budget lines, they have little control or influence over their shape and approval procedure. National governments, for their part, do not seem to have any say whatsoever. The fact that many of the thematic and regional budget lines are managed from Brussels or other regional locations means that they can often be out of step with national-level efforts to promote country ownership, alignment and harmonisation. This puts EC delegations in an awkward position in relation to aid effectiveness and threatens to undermine its standing and potential influence in broader policy dialogue on this important issue.

As noted in Chapter 3, significant reforms have been carried out recently in an attempt to simplify EC structures and limit the number of financial instruments. It is still too early to tell what the effect of these efforts will be, but problems caused by the juxtaposition and coexistence of different budget lines (even if these are reduced in number) are likely to persist.

Individuals, personalities and staffing levels matter in the aid relationship

While the aid relationship between the EC (as well as other donors) and partner countries is mediated through a host of formal institutions, structures and mechanisms, much of the success or failure of cooperation efforts depends on individual interactions, specific innovators and appropriate staffing levels to carry out the tasks at hand. Harmonisation and alignment have many benefits but, as all three of the case studies in this project illustrate, the costs are also quite high. The direct and indirect costs implied to 'scale up aid' in financial and time terms often go unrecognised, creating difficulties and conflicting incentives. A common theme that emerges throughout the case studies (especially that of Mozambique) is how relatively much delegations have been able to accomplish, given the rather limited resources at hand. This is something that both headquarters in Brussels and delegations need to be more fully aware of when defining their human resource management policies. It is also another aspect the European Parliament could exert pressure for: hearings of future heads of delegations in parliamentary committees or the like, as in the US Congress.

In Peru, for instance, the author of the case study notes that the continuity of policy priorities is undermined by the high turnover rate of high level officials within the Peruvian government. Donors face a changing human scenario in which momentum is often lost. In the case of Mozambique, problems in human resource management and understaffing impose considerable burdens on the EC Delegation, which has had to work exceptionally hard to mitigate the impacts on aid effectiveness more broadly. For example, maintaining support to ODA MOZ proved difficult, although the EC's central role in the harmonisation and alignment process and the widely recognised importance of the database meant that it was able to receive support from other aid agencies during the 2005-7 period. In Cambodia, supporting and implementing the EU Roadmap

for Increased Aid Effectiveness, which was established in December 2006 with the main objective of improving policy coordination and the harmonisation of procedures, is likely to be an extremely labour-intensive effort which will create additional work for staff of donor agencies. Thus, it will be important to clarify the roles of the EC vis-à-vis other donors and the local presidency representative to resource responsibilities effectively in the medium term.

CSPs have the potential to offer a framework to improve aid effectiveness — but their quality remains uneven

Introduced as part of the reforms of EC aid discussed in Chapter 2 of this report, CSPs are intended to be the EC's central planning documents at the country level. In principle, they should cover all EU and not just EC activities, as well as information on member states' programmes. Thus, the CSPs are meant to provide a mechanism for coordinated programming, carried out jointly at the European level and based on the principle of country ownership. However, as suggested by the different experiences recounted in the case studies for this project, the process through which CSPs are elaborated is of varying quality and depth.

As discussed in the case of Mozambique, the process of drafting a country strategy seems to have constituted an important, if limited, first step towards more coherent and aligned donor strategies with the emergence of the CS-19 group of donors, which included the EC from the outset (contributing to the process through the provision of financial support and key elements of joint donor analysis), as well as a series of joint government-donor country strategy hearings to review donor plans. However, the substantive results of the process were less impressive, being mainly limited to information sharing. In addition, the process was hampered throughout by a lack of clear orientation from the government (e.g. on preferred mix of aid modalities and division of labour amongst sectors and provinces). Moreover, follow-up of the findings from the hearings has been weak, with donor agencies awaiting a draft GoM aid policy and implementation strategy.

As for Cambodia, the record may be even more mixed. The Cambodia case study reveals that the consultation process around the newest CSP and the NIP with the government was considerably limited, or at least non-substantive. EC consultation with the government focused on its counterpart, MFAIC, and did not include consultation with the CDC, the RGC's appointed focal point for engagement on development cooperation. While MFAIC was requested to gather comments from others in government, weak coordination across the RGC is an identified concern.

The lesson that emerges from these experiences is that a more sustained effort by EC staff to engage in meaningful dialogue with key actors and make the process as participatory and inclusive as possible seems to be required to turn CSPs into real joint coordination tools which other, non-EC stakeholders can buy into. This, of course, may be more easily said than done, especially in contexts of weak governance and/or little negotiation capacity of the partner government.

Finally, relations between HQ and delegations needs to be further improved

An important part of the issue of enhanced internal coordination and coherence relates to the discussion on thematic and budget lines highlighted earlier. Over the past few years, there has been a considerable effort to simplify the way in which budget lines work and in particular to give greater say and autonomy to the Delegations through deconcentration and other reforms. This will require the EP to shift its focus in holding the Commission accountable: away from (micro)managing input into budget line, towards checks on delivery via results-oriented management. Nevertheless, improved dialogue between Brussels and the EC delegations is still needed to ensure that the budget lines managed from far away adequately respond to and support ongoing country-level efforts to improve aid effectiveness.. Improved dialogue between Brussels and the EC delegations is needed to ensure that the budget lines managed from far away respond adequately to and support ongoing country-level efforts to improve aid effectiveness.

Beyond budget lines, poor communication and coordination also add unnecessary complexity to interaction among EU actors, who are at times poorly informed about what others are doing. As a result, different actions undertaken at different levels may end up at cross purposes. The example provided in the Mozambique case study of the temporary suspension of co-financing and pool funding in 2006 following apparent inconsistencies in the respective CPA provisions for pool funding and procurement highlights how

EC procedures can in some instances be quite cumbersome and undermine broader harmonisation and alignment efforts and that the EC and EU member states must ensure that the provisions of the EDF are sufficiently flexible to allow the Commission to play a meaningful role in delivering the commitments of the Paris Declaration.

In addition, many of those interviewed pointed to missed opportunities in sharing lessons across the EC and other EU institutions and in strengthening the capacity of the EC to act as a learning and knowledge network to increase coherence and aid effectiveness.

Our own experience in attempting to organise the fieldwork for this project highlighted the fact that there is a need to improve communications and actions between different EU bodies in Brussels and the EC delegations in-country. In the cases of Mozambique and Peru in particular, it emerged that EC missions on aid effectiveness were due to take place at around the same time that we were intending to carry out the case studies for this project, but the CD of the EP, which commissioned our study, was not aware of the EC-led missions in advance. The EC delegations thus faced a situation in which two different sets of teams (one in-house and the other from ODI) would descend upon them to discuss issues related to aid effectiveness within a relatively short period of time. Understandably, they felt better coordination of the two efforts was required. In the end, the ODI researchers and the EC missions were able to coordinate their work very well without imposing unduly high burdens on the respective EC delegations. However, better communication and exchange of information among different components of the EU aid system remain desirable in order to provide enough advance notice to all relevant stakeholders before certain actions are undertaken, to be able to plan in a more coordinated manner rather than on an *ad hoc* basis and, more generally, to uphold the principles of the PD.

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How effective is EU aid on the ground?

A comparative assessment of EU assistance in Cambodia, Mozambique and Peru, and lessons learned

ANNEXES

September 2007

ODI

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Disclaimer: The views presented in this paper are those of the authors and do not necessarily represent the views of the European Parliament's Committee on Development

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ANNEX 1
QUANTITATIVE ANALYSIS OF EC AID
CASE STUDY SELECTION METHODOLOGY PAPER

Case Study Selection Methodology Paper

Prepared by ODI

(Lead author: Geoff Handley, CAPE)

**Document submitted as part of the EU Aid Effectiveness project
commissioned by the European Parliament's Committee on
Development**

3 April 2007

1. Introduction

As part of the study on EU aid effectiveness that the European Parliament's Committee on Development has commissioned from ODI, this paper sets out to identify a list of countries of particular interest as recipients of EU aid (both from the European Commission - EC - and from individual Member States) that may serve as case studies for the project.

The paper begins by providing a detailed description of the methodology that the ODI team has elaborated to make the selection of countries. Based on that methodology, we draw a long list of 60 countries that could potentially be used as case studies. These countries are divided into three different categories (each consisting of 20 countries) and presented in three different tables following the broad contexts in which EC aid operates. These contexts include:

- Fragile states
- Aid Dependent states
- Lower Middle Income states

From this long list of 60 countries, we then produce a short list of three countries that in our view are the best suited to serve as case studies for this project. To draw this short list, we rely on several criteria intended to allow us to identify the optimal case study candidates based on diversity, interest in terms of EU aid effectiveness, and resources at hand to carry out the case studies. More specifically, we rely on the following criteria:

- Geographic spread and diversity
- Countries not dominated by humanitarian assistance (following the mandate of the Committee to focus on development cooperation)
- Significance/presence of EU donors
- Practicality and feasibility of the case studies so as to maximise ODI's experience given limited resources and time

Based on these criteria, we have selected one country from each of the three categories/tables outlined above. Our recommended short list proposes the following countries as case studies:

- Cambodia (Fragile)
- Mozambique (Aid Dependent)
- Peru (Lower Middle Income)

In our view, the combination of these three countries offers tremendous potential to analyse experiences with EC/EU Members aid and to draw lessons based on those experiences to make aid more effective. We look forward to your feedback.

2. Data Overview

In line with the Project Document, a database has been compiled comprising the following information for states receiving aid from the EC:

- **GDP/Capita:** A series of data compiled from World Bank's World Development Indicators (WDI) for the period 1965 – 2005.
- **Progress Towards the MDGs:** Data on progress towards MDGs compiled from the official United Nations database for the period 1990 - 2004 (though there are many gaps in the available data).
- **Size of EU Development Programme:** Data from OECD Development Assistance Committee (DAC) database on EC and EU member states' aid disbursements to all recipients for 1960 – 2005 (EC) and 2005 (all EU bilateral donors).
- **Number of EU Bilateral Donors:** The disbursements data (OECD DAC) gives an indication of how many EU member states were active in a given country in 2005.

In addition, the database also provides information regarding:

- **Fragile States:** List of all countries classified as LICUS in the last four years.
- **HIPC Status:** Those Low Income countries at pre-decision, decision and completion point on the Highly Indebted Poor Countries (HIPC) programme are listed.
- **Governance indicators:** The World Bank's Governance and Corruption indicators are also included in the database (these are made up of six measures: (i) voice and accountability; (ii) political stability, (iii) government effectiveness; (iv) regulatory quality; (v) rule of law, and; (vi) control of corruption).

Availability of Recent Evaluations of Aid Effectiveness: Finally, the information collected in the database has been complemented by the collation of available EC internal country reviews, independent external CSP evaluations, ECHO country evaluation reports, and "Three Cs" (coordination, complementarity and coherence) evaluations undertaken by EC member states' evaluation centres. This information has not been used to inform the analysis below, but will instead be drawn upon once the final three case study countries have been agreed upon.

3. Data Analysis

This section uses the data collected to analyse EC aid along a number of dimensions: (i) an overview of EC and EU aid flows; EC and EU aid flows by (ii) geographic distribution; (iii) weight of recipient country population; (iv) recipient income bracket; (v) recipient conflict status; (vi) recipient governance measures, and; (vii) humanitarian assistance. Each dimension is treated in turn, though beforehand it is worthwhile noting some of the constraints with the data and approach used herein.

a. A Note on the Data and Cross-Country Approach

Before proceeding it is worth noting that there are a number of limitations with the data and more generally with this aggregate cross-country type of analysis. As regards data, while more specific concerns will be flagged up in their respective sections (see

especially the caveats regarding the governance indicators), there are also general issues, in particular regarding the OECD DAC database on aid. This valuable source has been relied upon heavily in the analysis as it provides a comprehensive and comparable source of data on aid flows. However, the figures cited may differ from those cited in official EC documentation (such as the EU Donor Atlas). In addition, the way data is drawn from the database (for example the total aid disbursement figures cited here refer to aid spent in “developing countries”) may mean that OECD DAC data is presented differently in other sources. Finally, financial figures are presented in current US\$ terms. Much of the data should therefore be regarded as indicative of levels and trends rather than as a precise capture of aid flows.

We refer to “EC” development assistance (or aid) throughout, making no distinction between the spending of the different Directorates General for development within the EC.

Because the focus of the commissioned project is intended to be EC development cooperation, we present data on *total* EC aid disbursements for 2005 (which includes what the OECD DAC classifies as “emergency”, or humanitarian) aid), as well as EC aid disbursements *net of humanitarian aid* (see section h below).

As regards the aggregate cross-country approach, this is clearly necessary in order to ascertain how EC and EU member states are distributing their aid around the world and can serve to illustrate key global trends. However, it cannot substitute for detailed country-specific analytical work, particularly when it comes to unpacking the complex chains of cause and effect behind much of the data (for example the complex interaction between aid, growth and governance). Rather, it serves to flag issues for more detailed investigation in later phases of the study.

b. Total European Aid to Developing Countries

A review of total aggregate aid disbursements by the EC and by EU member states over the period 1990 – 2005 reveals that both have risen sharply in recent years (see Figure 1), with total disbursements in developing countries in 2005 totalling \$8.7 billion. This represents around 22% of total aid disbursed by EU member states in that year.

**6. Common problems emerging:
c) Strategic issues for the EC**

- ❑ **Country Strategy Papers** must have greater significance & substance:
 - The central strategy document for country programming: for bigger programmes CoD might adopt review role ?
 - Must involve extensive consultation with Government.
 - Ideally, analysis should be done jointly with EU Member States and other donors
- ❑ **A policy for MICs** not covered by Pre-accession and European Neighbourhood provisions must be developed.
- ❑ **“Federating” role of EC** as coordinator of EU development assistance needs clarification:
 - Role of EC as convener of meetings and organiser of information sharing is accepted;
 - Member States do not see EC legitimacy extending further.

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7. Recommendations for the Committee on Development:

Four Short-term Priorities:

- ❑ Declare a move away from management of budget lines, to wider strategic role, commenting on Country Strategy Papers and assessing progress against results.
- ❑ Undertake more frequent country visits to assess results and dialogue with political counterparts
- ❑ Create ad hoc working groups (with EC) on the specific operational issues here mentioned.
- ❑ Lead a dialogue with Member States on operationalisation of EU aid harmonisation policy.

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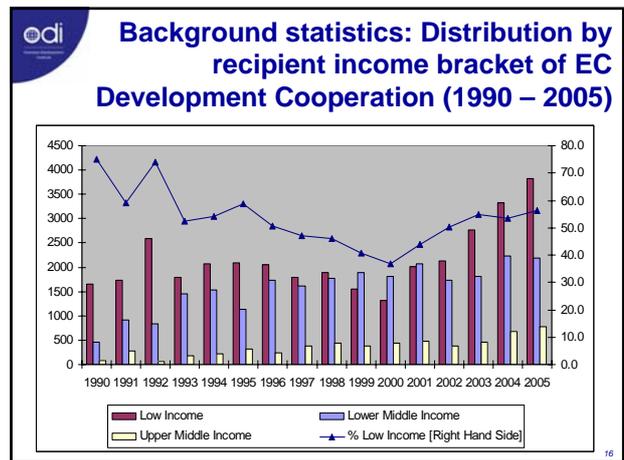
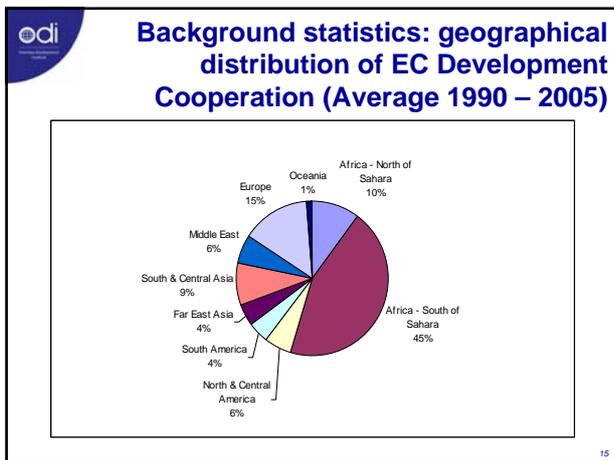
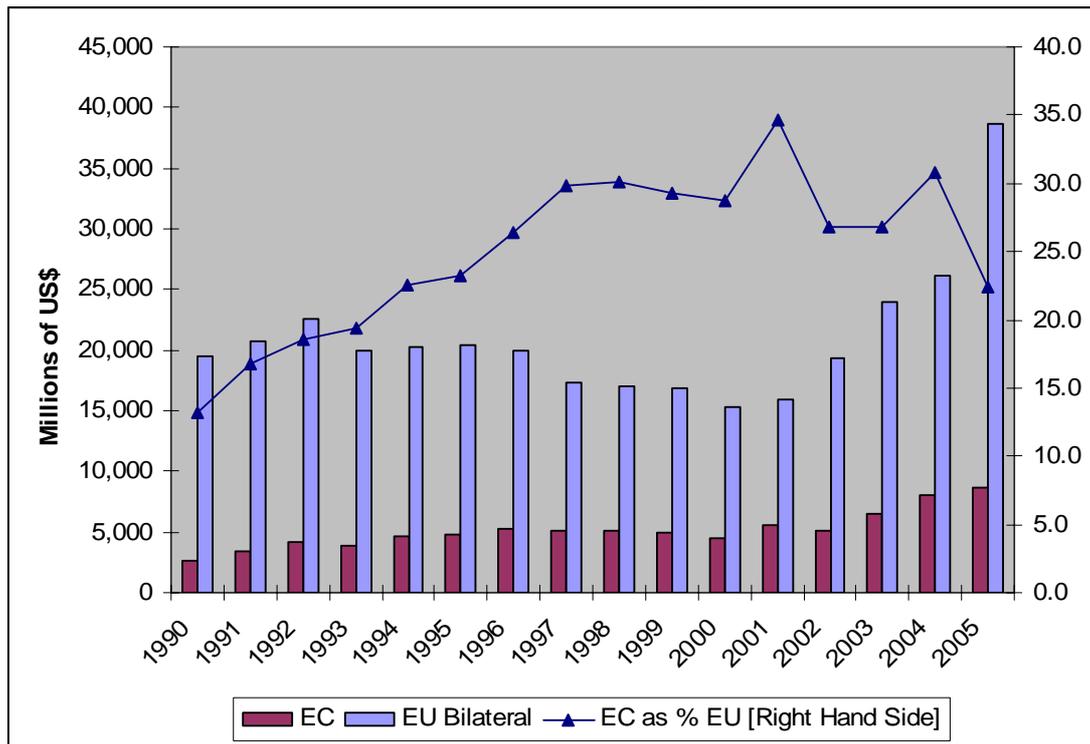
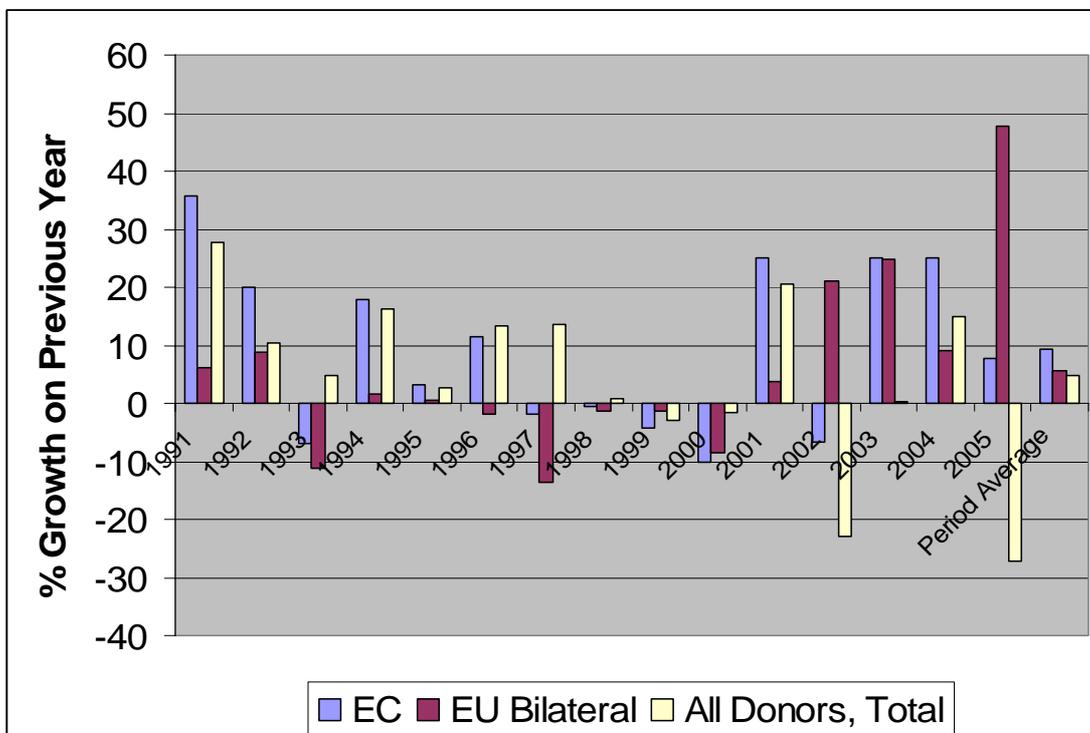


Figure 1: Total EC and EU Bilateral Aid to Developing Countries, 1990 – 2005



Source: OECD DAC database.

Figure 2: Annual Growth in EC and EU Bilateral Aid to Developing Countries, 1990 – 2005



Source: OECD DAC database.

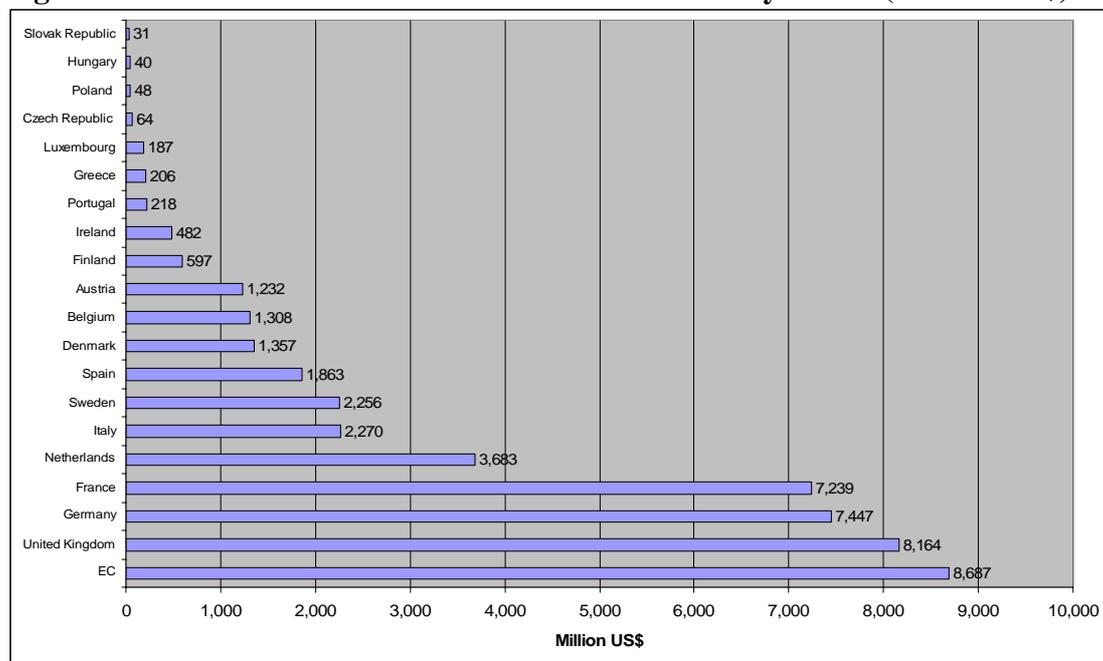
Over the period, EC aid grew in proportion to total EU aid until reaching a peak of 35% in 2002. Subsequently, although EC aid disbursements have continued to grow

year-on-year, the rapid acceleration of bilateral disbursements by member states has meant that the EC's relative share of European aid has fallen away from its 2002 peak. The recent rapid acceleration in member states disbursements also serves to underline the importance of the EC's aid coordination role, aside from its more directly targeted development activities.

Figure 2 further illustrates the faster growth of EC aid in relation to both EU member states' bilateral disbursements as well as the international development community as a whole, with average annual growth rates over the period of 9.3%, 5.7% and 4.7% respectively. It is noteworthy that disbursements from all sources declined in the late 1990s and early 2000s, the last five years the respective growth rates have been very high in Europe compared to the donor community as a whole: 15.3% (EC), 21.2% (EU member states), -2.9 (all donors).

Focusing on 2005, Figure 3 provides a break down of European aid disbursements by EU member state (and including the EC). The EC has emerged in recent years as the single largest European aid agency by disbursement volume (having overtaken Germany in 1994 and France in 1997), followed by the UK, France, Germany and the Netherlands. However, as Figure 4 illustrates, when these figures are expressed as a proportion of member states' GNI, the rankings change dramatically, with smaller economies that have a larger proportionate commitment to aid rising to the top (i.e. Luxemburg, Sweden, the Netherlands and Denmark all top 0.5% of GNI). As the Hutchinson Report notes (Hutchinson, 2006; para. 17) a number of countries have a long way to go if they are to reach the PDA target of 0.56% of aid in GNI by 2010 and 0.7% by 2015.¹

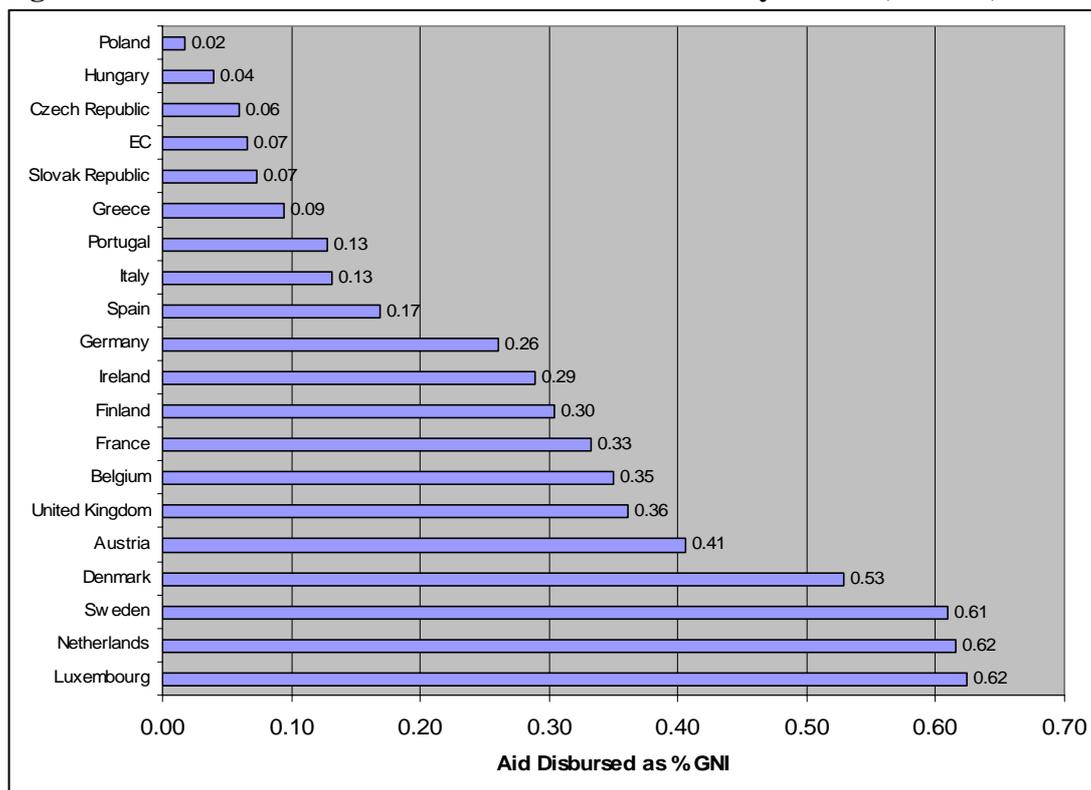
Figure 3: EC and EU Aid Volumes Disbursed in 2005 by Donor (Million US\$)



Source: OECD DAC database.

¹ "On more and better cooperation: the 2006 EU aid effectiveness package" 2006/2208(INI) Committee on Development. Rapporteur: Alain Hutchinson.

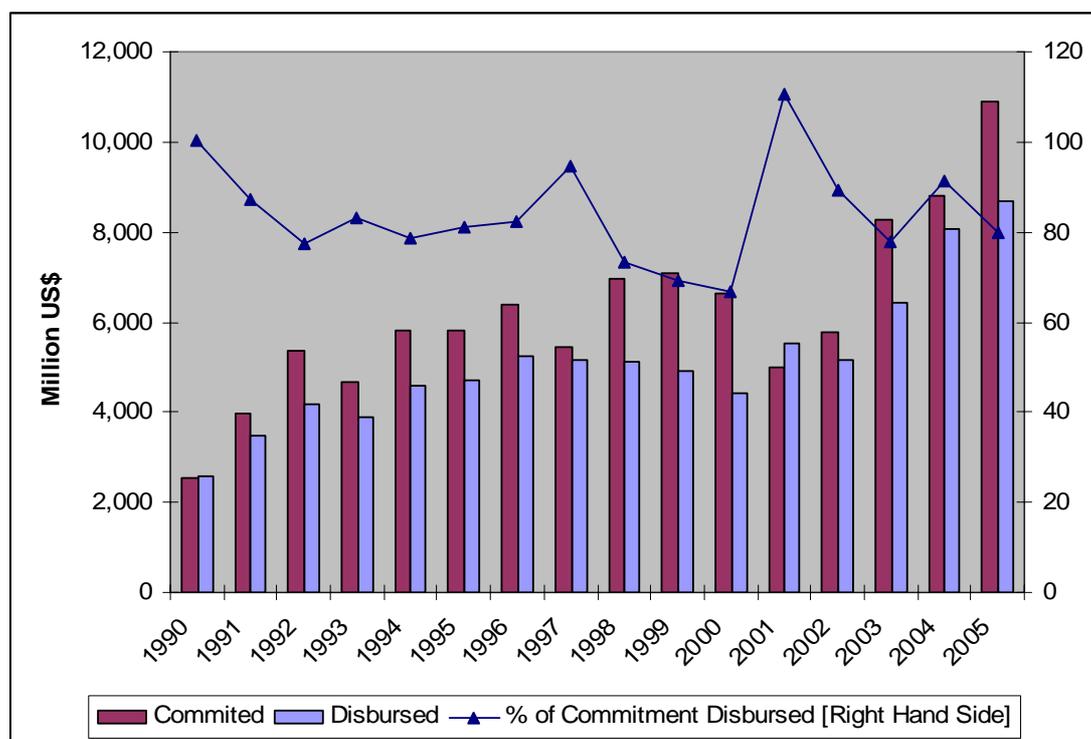
Figure 4: EC and EU Aid Volumes Disbursed in 2005 by Donor (% GNI)



Note: EC figure (0.07%) calculated by dividing EC multilateral aid by EU member states GNI. All EU aid (i.e. EC plus bilateral disbursements) makes up 0.36% of EU GNI.

Source: OECD DAC database and World Bank.

Figure 5: EC Aid Commitments and Disbursements for Developing Countries, 1990 – 2005



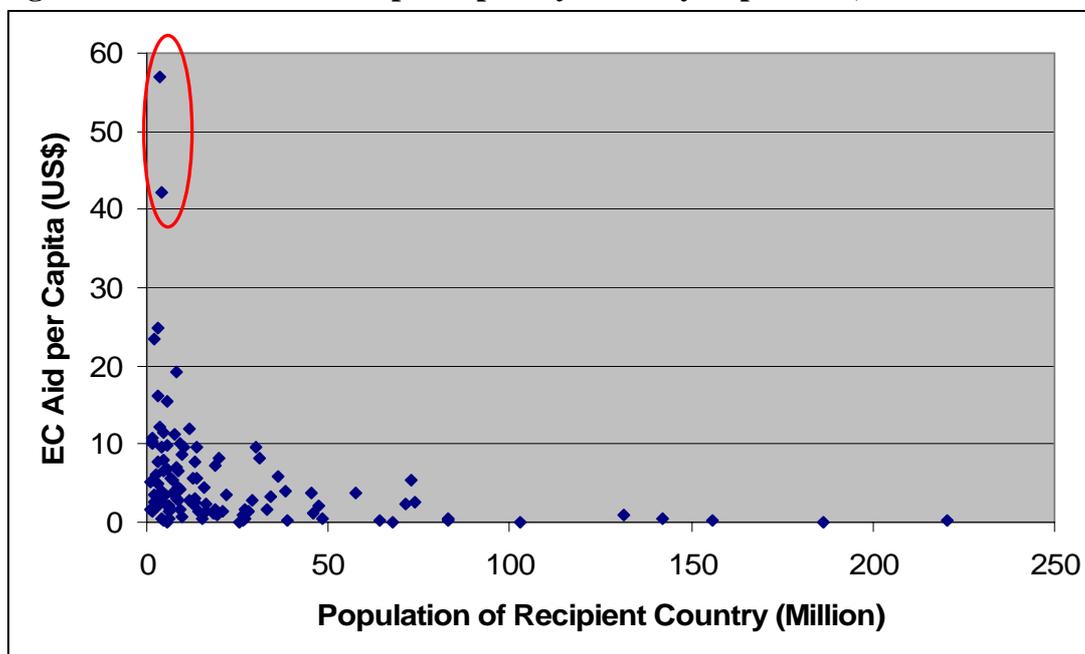
Source: OECD DAC database.

A central feature of the aid effectiveness debate in recent years has been donors' ability to deliver on aid commitments in a consistent and predictable manner. This is consistently cited by recipients as a major concern, as inconsistent disbursement undermines planning, budgeting and the degree of genuine budgetary oversight by recipient parliaments. The EC's record in recent years at an aggregate level has been mixed, as is illustrated in Figure 5, which shows that disbursement rates have fluctuated from 67% to 111% and averaged 84% between 1990 and 2005. Undue emphasis on disbursement rates and the associated pressure to disburse aid come what may has been criticised by many observers for generating perverse incentives within aid agencies (see e.g. Ostrom et al., 2005) and certain aspects of EC policy explicitly reserve the right to withhold disbursements (e.g. the "variable tranche" of EC General Budget Support).² However, this clearly illustrates an area that merits further investigation in later phases of the study.

c. EC Aid by Recipient Population

An examination of per capita EC aid disbursements reveals that the vast majority of recipients received less than \$20 per capita in 2005, with an average value of \$5.4 per capita (see Figure 6). The countries included in these calculations were restricted to those with populations of over 1 million people as these states typically have relatively high per capita aid levels reflecting the fixed costs of running a country office. It is worth highlighting two outliers (circled in Figure 6) in the per capita aid figures for 2005: the West Bank and Gaza and Bosnia and Herzegovina, which have very high relative per capita aid figures of \$57 and \$42 respectively.³

Figure 6: EC Aid Disbursed per capita by Country Population, 2005



² "The Samaritan's Dilemma: The Political Economy of Development Aid." Gibson, Andersson, Ostrom & Shivakumar. Oxford University Press. 2005.

³ OECD DAC refer to West Bank and Gaza as "Palestinian Administrated Areas". Here we follow the World Bank convention of "West Bank and Gaza". The choice is purely arbitrary.

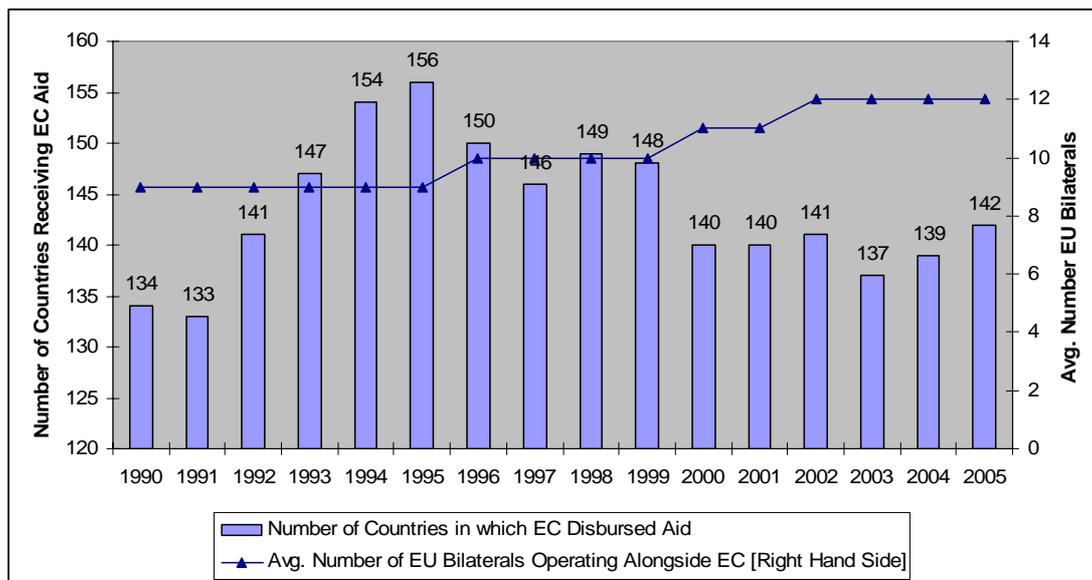
Note: Countries with populations of below 1 million excluded. China (1.3 billion people) and India (1.1 billion people) were also excluded from the sample for presentational purposes (they received \$0.05 and \$0.17 per capita from the EC in 2005 respectively).
 Source: OECD DAC database and World Bank.

d. EC Aid by Geographic Distribution

The number of countries in which the EC actively disbursed aid between 1990 – 2005 ranged from a high of 156 in 1995 to a low of 133 in 1991 and stood at 142, with an average spend of \$61 million per country, by 2005. Added to this, the EC has had to operate alongside a steadily growing number of EU bilateral donors (in spite of being spread less thinly than in the mid-1990s), dealing with an average of 12 other EU aid agencies in each country in which it operated in 2005 (see Figure 7).

The latest available figures for the numbers of personnel working in-country indicate that in 2004 the EC employed 559 expatriates in the field, 2,021 local staff and including headquarters staff (959) employed a total of 3,539 staff (second only to Germany with 6,550 staff).⁴

Figure 7: Number of Recipient Countries in which the EC Disbursed Aid, 1990 - 2005



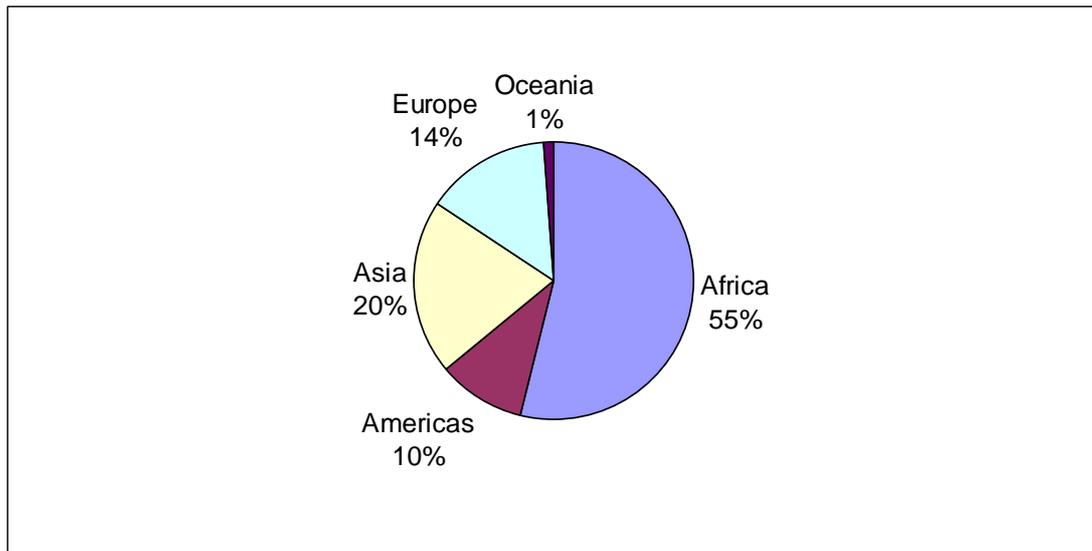
Note: Figures refer to countries recorded by OECD DAC as disbursing aid. Therefore, totals do not necessarily tally exactly with numbers of country offices.

Source: OECD DAC database.

Looking at EC spending over 1990 – 2005 by continent (Figure 8), it is apparent that Africa has received the majority of aid (55%), followed by Asia (20%) and Europe (14%). Breaking the data down on a regional basis (Figure 9) shows that Sub-Saharan Africa (SSA) has been the principal recipient of EC aid with 45%.

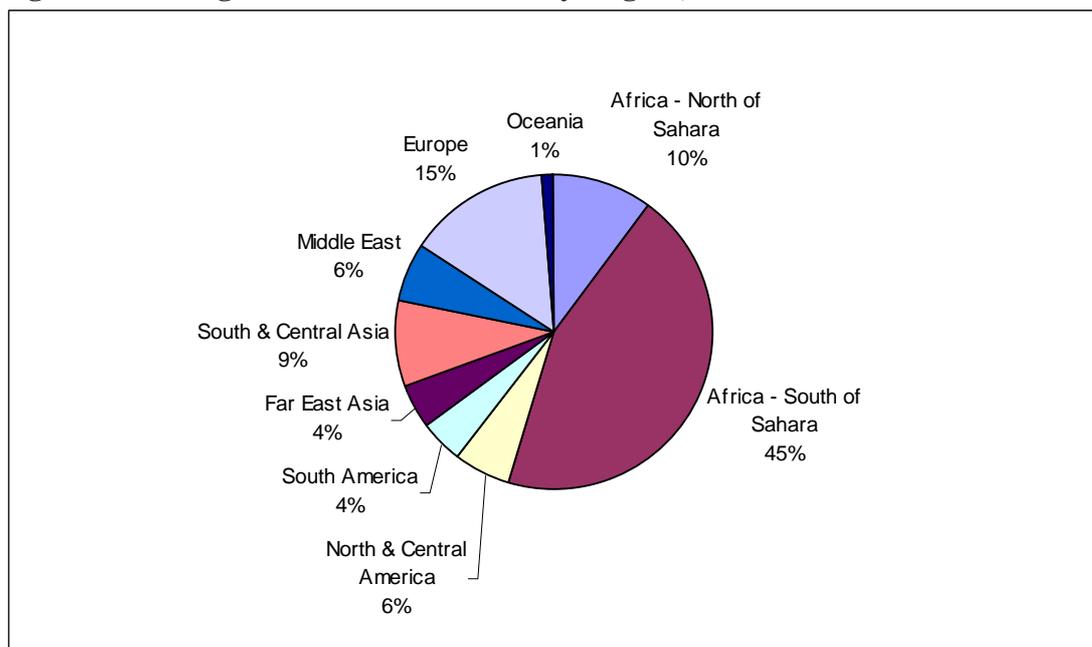
⁴ EU Donor Atlas 2006 Volume I. Mapping Official Development Assistance. February 2006. Prepared by Development Strategies for the EC and OECD.

Figure 8: Average EC Aid Distribution by Continent, 1990 – 2005



Source: OECD DAC database.

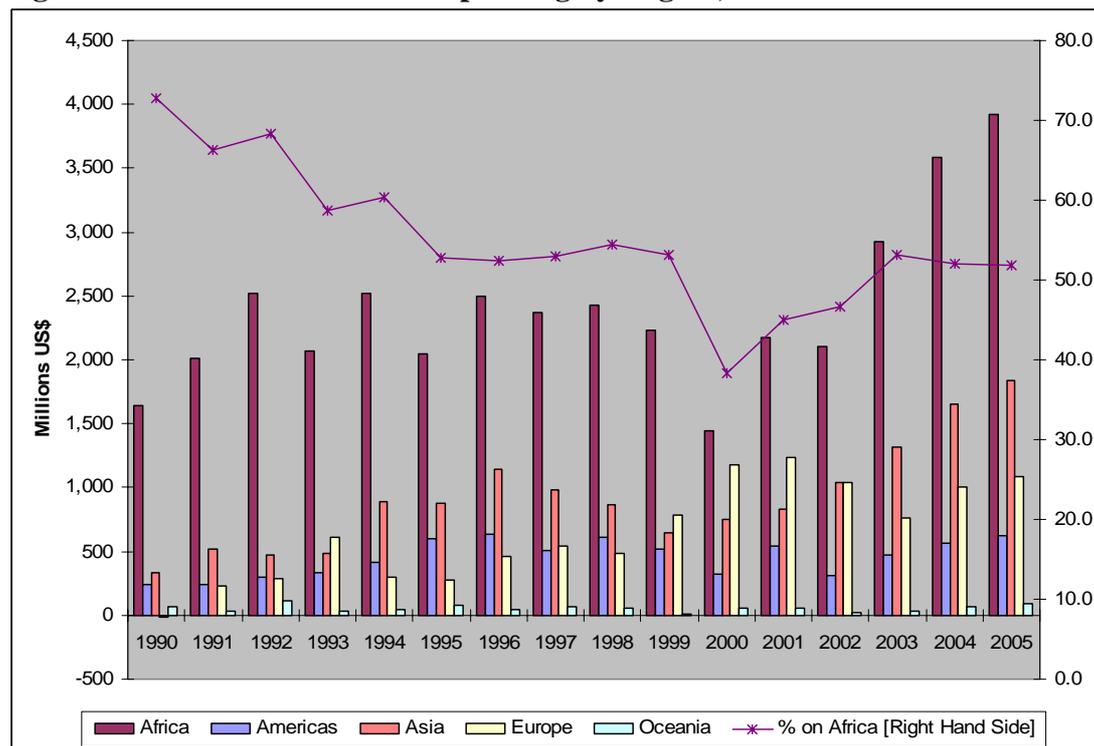
Figure 9: Average EC Aid Distribution by Region, 1990 – 2005



Source: OECD DAC database.

However, looking at period averages masks some interesting annual trends that are illustrated in Figure 10. In particular, while Africa is clearly the main recipient of EC aid, its total share of EC disbursements has fallen from a high of 73% in 1990 to 52% in 2005. This is largely because, although aid to Africa has grown rapidly of late (at an average of 17% per year over the last four years), EC aid to Asia (22% p.a. over the same period) and Oceania (29% p.a.) has grown even faster.

Figure 10: Evolution of EC Aid Spending by Region, 1990 - 2005



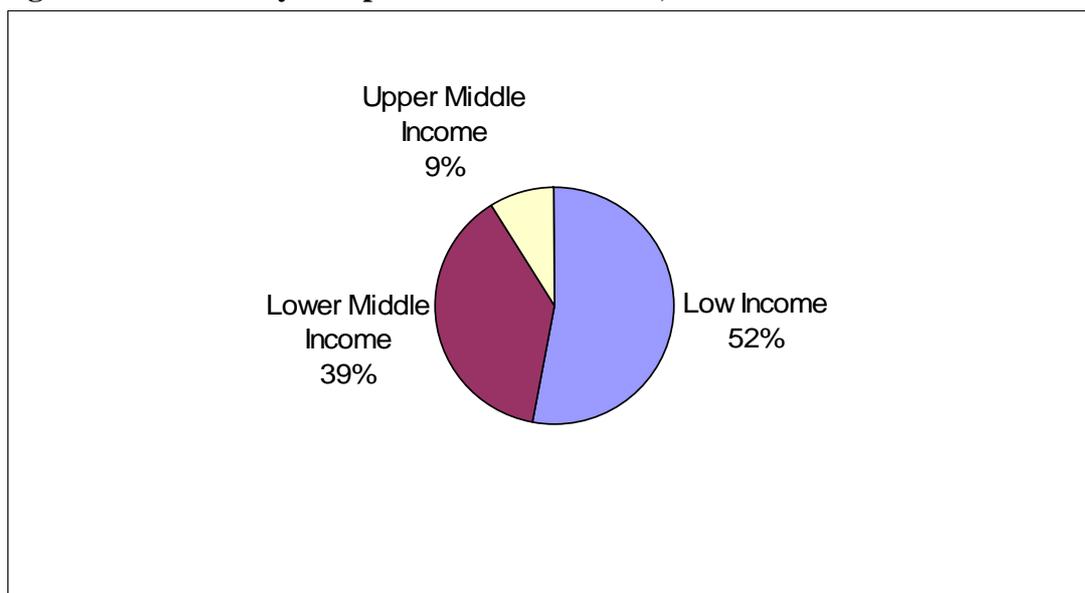
Source: OECD DAC database.

e. EC Aid by Recipient Income Bracket

The World Bank divides countries into three broad income brackets: Low Income, Middle Income (comprising the subcategories of Lower Middle and Upper Middle), and High Income. Countries are allocated into one of these categories according to Gross National Income (GNI) per capita in 2005. The thresholds for the respective groups are at present: low income, \$875 or less; lower middle income, \$876–3,465; upper middle income, \$3,466–10,725; and high income, \$10,726 or more.

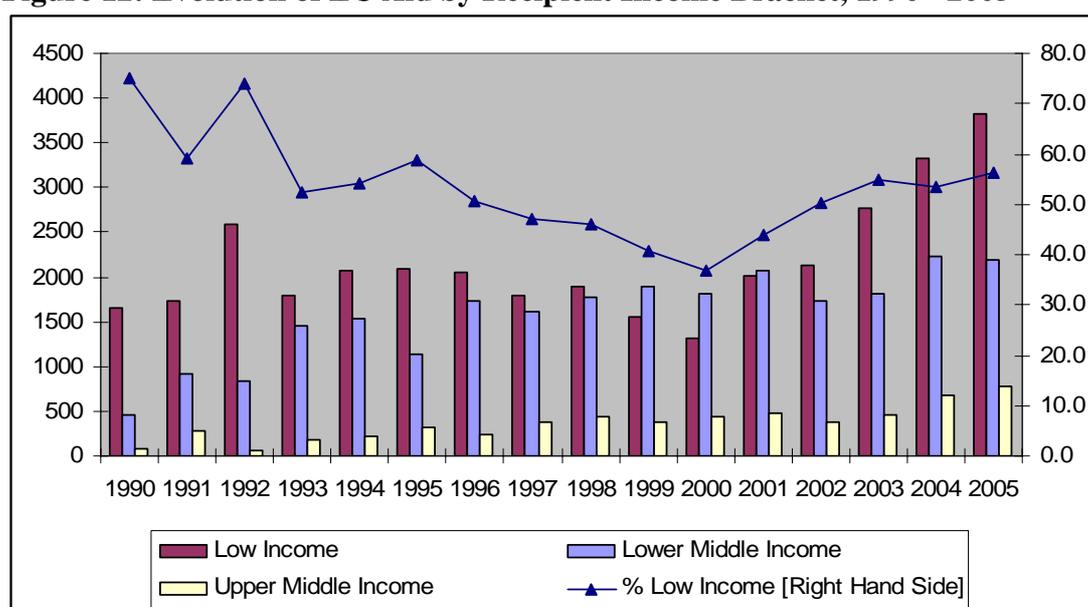
Using this categorisation we can examine how EC development assistance has been apportioned amongst countries by income bracket over 1990 - 2005. This will give some indicative guidance as to how well targeted EC aid has been towards the poorest *countries*, although since China is a lower middle income country it will be an imprecise guide as to whether EC aid is reaching the poorest *populations*. As Figure 11 illustrates, low income countries received around 52% of aid over the period, while lower middle and upper middle received 39% and 9% respectively. Looking at trends in apportionment over time (Figure 12) reveals that the share of EC aid going to low income states has fluctuated during the last 15 years, declining from a high of 75% in 1990 to a low of 37% in 2000 and steadily recovering to 56% in 2005. This is to a large extent mirroring the trends in regional resource allocation, since 26 of the 41 low income countries are in SSA and 10 are in Asia.

Figure 11: EC Aid by Recipient Income Bracket, 1990 - 2005



Source: OECD DAC database and World Bank.

Figure 12: Evolution of EC Aid by Recipient Income Bracket, 1990 - 2005



Source: OECD DAC database and World Bank.

f. EC Aid by Recipient Conflict Status

In recent years increasing attention has been paid to a category of countries termed “fragile states” (formerly described by the World Bank as Low Income Countries Under Stress or LICUS) – i.e. those that are in the midst of or recovering from all-out or low-level warfare. Fragile states are divided into three sub-categories: core, severe and marginal, depending on the income level and CPIA rating.⁵ Fragile states classified as "severe" have an overall and governance CPIA of 2.5 or less; those

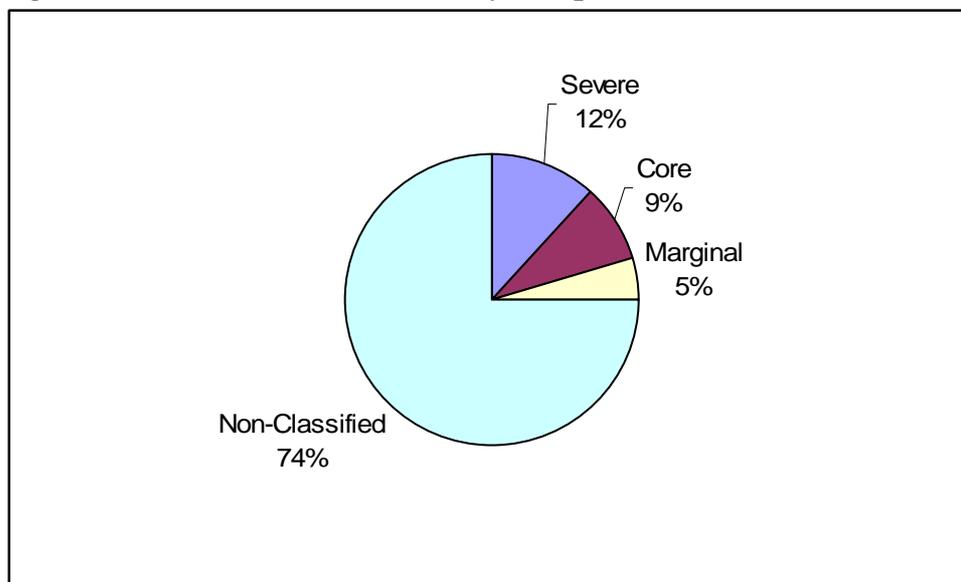
⁵ CPIA stands for Country Policy and Institutional Assessment and is a composite indicator of a number of measures of country institutions over four broad areas: economic management, structural policies, policies for social inclusion and public sector management.

classified as "core" have an overall and governance CPIA of 2.6–3.0); and those classified as "marginal" have an overall and governance CPIA of 3.2.

These states typically have very low per capita incomes and exceptionally weak state institutions, requiring a different set of aid interventions than other, non-conflict affected states. Such states also have negative spill over effects both regionally and globally (particularly with regard to security) which have added to their profile within the aid industry.

EC aid in 2005 went predominantly to non conflict-affected or “non-classified” countries (see Figure 13), with “severely” conflict affected receiving 12%, “core” receiving 9% and “marginal” receiving 5%. It is worth bearing in mind however that the criteria for classification as a “fragile state” result both in some surprising exclusions (e.g. Iraq) and inclusions (e.g. Nigeria). One should therefore be careful in examining the specific countries within each category (see database for a full listing).

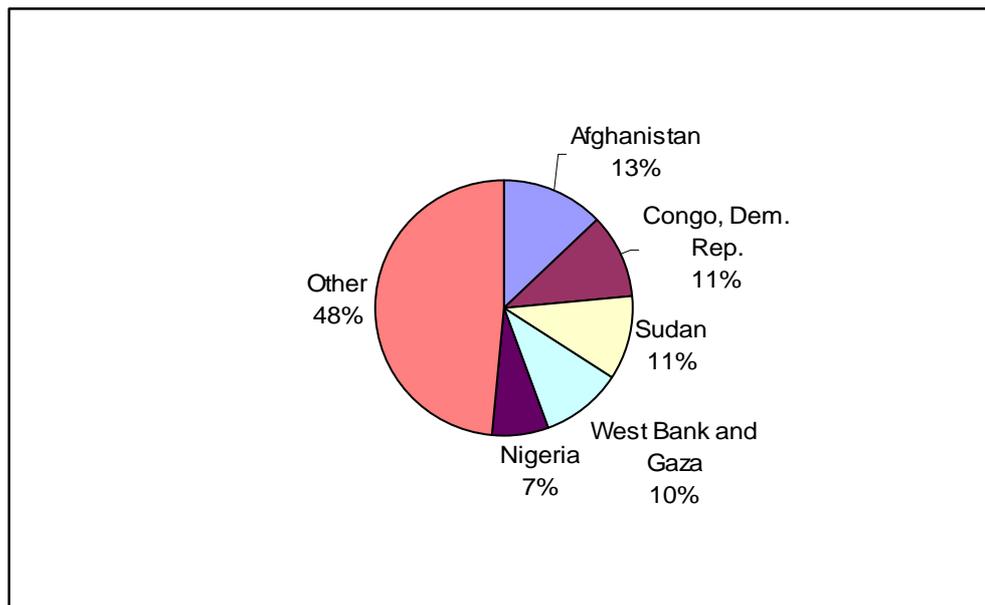
Figure 13: Distribution of EC Aid by Recipient Conflict Classification for 2005



Source: OECD DAC database and World Bank.

Following a more country specific line of analysis, Figure 14 lists the top five fragile states by EC aid disbursements in 2005, revealing that Afghanistan received the largest single share of aid to fragile states (13%), followed by DRC (11%), Sudan (11%), West Bank and Gaza (10%) and Nigeria (7%).

Figure 14: Largest Fragile State EC Aid Recipients in 2005, as % of Total Aid to Fragile States



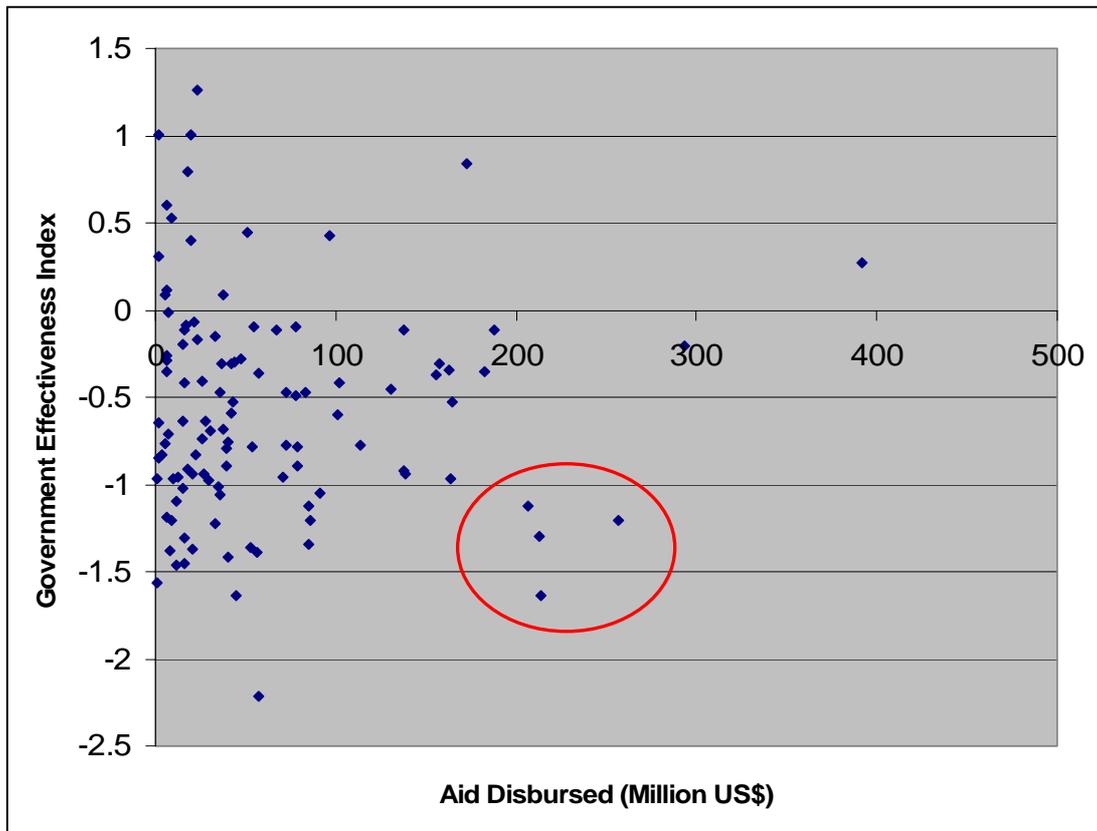
Source: OECD DAC database and World Bank.

g. EC Aid by Recipient Governance Rating

A growing, if controversial, body of evidence cites the central importance of a country's governance institutions in the efficacy of aid (see e.g. Kaufmann et al., 2004).⁶ Figures 15, 16 and 17 plot net EC aid disbursement per country in 2005 against World Bank indices of Government Effectiveness, Rule of Law and Control of Corruption. These indices should be treated with caution for three principal reasons: (i) the mere act of trying to express a concept as complex as "governance quality" in a few indicators necessarily sacrifices a lot of valuable information; (ii) the standard errors associated with the indices are quite high, and; (iii) many of the indicators for many countries are supported by as little as one source document. However, taken as a whole they give an overall indication of the distribution of EC aid spending over country governance profiles. As the figures illustrate, the vast majority of countries in which the EC operates have low scores on these indices, with a number of outliers that are of particular cause for concern (i.e. those countries circled in red) because of the congruence of poor governance measures and large volumes of aid. The four outliers identified against each of the three indicators are Afghanistan, DRC, West Bank and Gaza and Sudan (although West Bank and Gaza does not stand out as markedly on the Rule of Law Index), all of which received over \$200 million in aid in 2005.

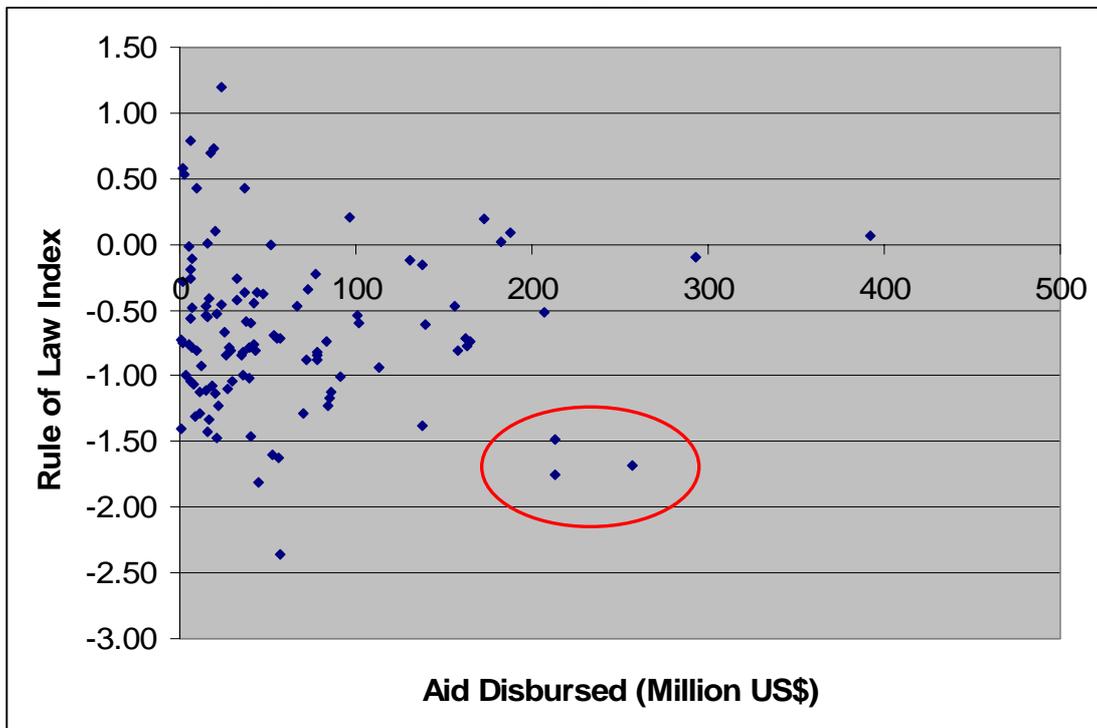
⁶ Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi. 2004. "Governance Matters III: Governance Indicators for 1996, 1998, 2000, and 2002." World Bank Economic Review 18: 253–287.

Figure 15: EC Aid (Total Disbursed in 2005) by Recipient Country Government Effectiveness Index



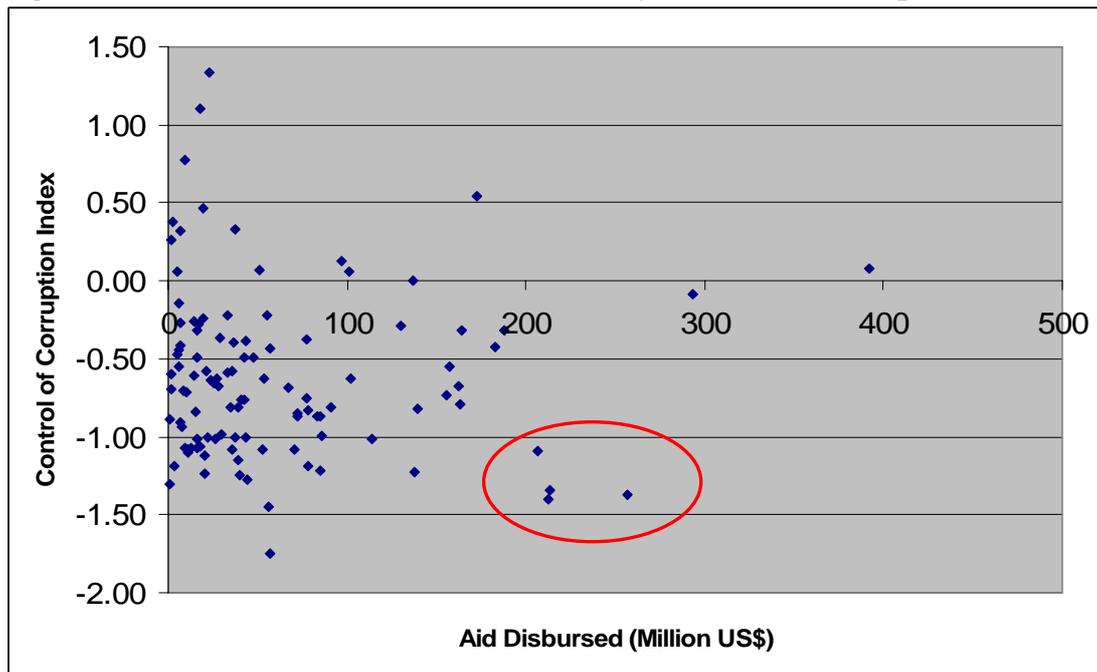
Source: OECD DAC database and World Bank.

Figure 16: EC Aid (Total Disbursed in 2005) by Rule of Law Index



Source: OECD DAC database and World Bank.

Figure 17: EC Aid (Total Disbursed in 2005) by Control of Corruption Index

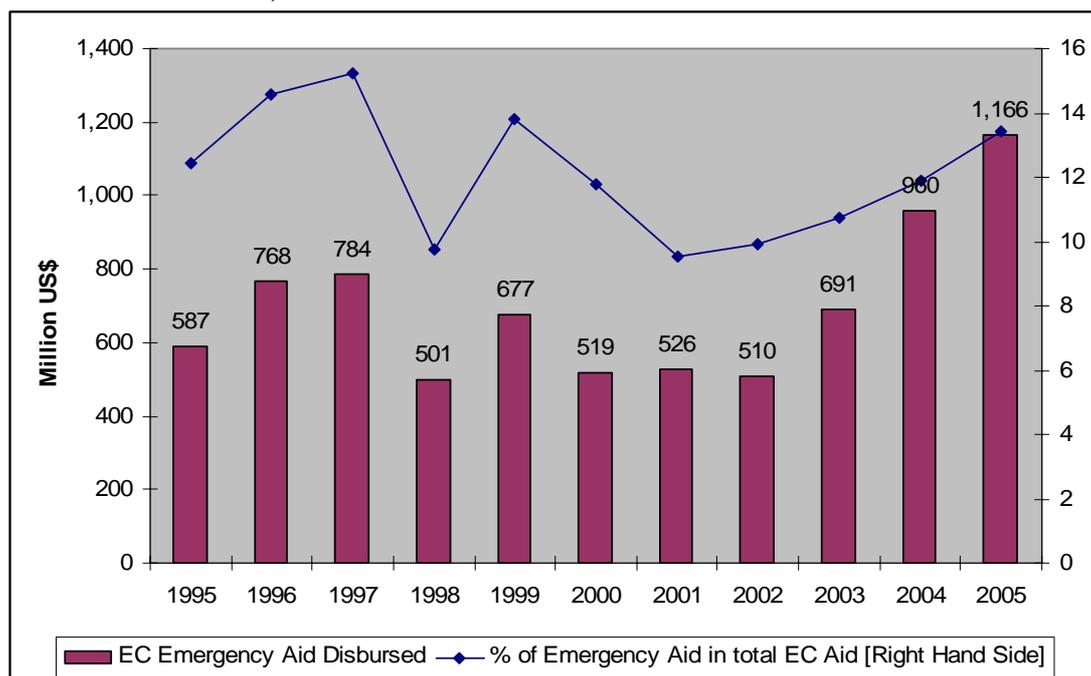


Source: OECD DAC database and World Bank.

h. EC Emergency or Humanitarian Assistance

Figure 18 shows both the overall volumes of EC emergency or humanitarian aid spending over the period 1995 – 2005 (OECD DAC only began collecting this data in 1995) and the proportion of humanitarian aid in total EC aid disbursements. While humanitarian spending fluctuated both in absolute and proportionate terms throughout the 1990s, it has grown steadily since 2001, reaching \$1.2 billion or 14% of total aid flows in 2005.

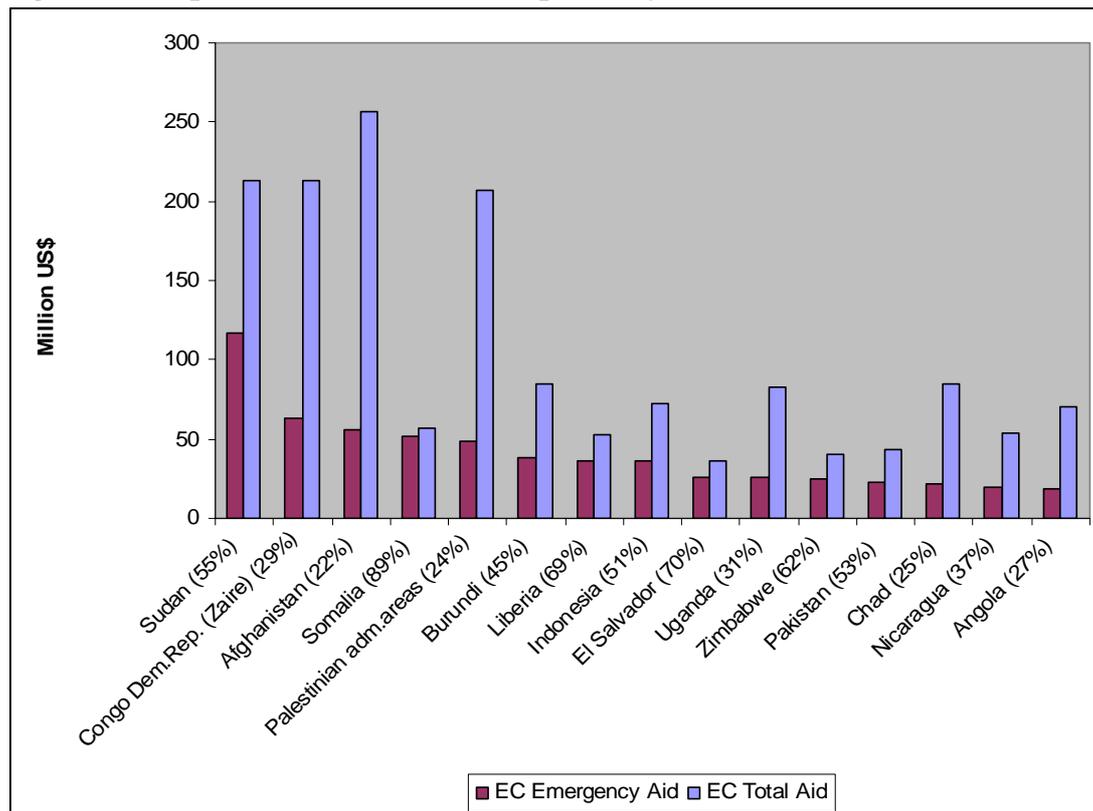
Figure 18: Total EC Humanitarian Aid Disbursed, 1995 – 2005 (in Both Absolute and Relative Terms)



Source: OECD DAC database.

While 14% may seem like a relatively small proportion of overall development assistance, it should be borne in mind that the nature of emergencies typically means that humanitarian assistance is concentrated in particular states. Thus in 2005, 55% of the \$213 million of EC aid spent in Sudan was humanitarian. Figure 19 summarises the top recipients of humanitarian aid.

Figure 19: Top Humanitarian Aid Recipients by Volume, 2005



Note: EC humanitarian aid is expressed as a percentage of total EC aid in brackets beside the country name.

Source: OECD DAC database.

It is essential to emphasise, however, that the focus of this project is on development cooperation. Because humanitarian aid is delivered in a distinctive manner and in complex country contexts, and there are difficult and controversial questions regarding whether indeed such assistance should be aligned with recipient government priorities (e.g. the case of Sudan), *we net out EC humanitarian assistance in deciding upon the final categorisation of countries.*

4. Country Categorisations

Having presented and analysed the data in the section above, we are now faced with the challenge of sorting through this rich dataset so as to select a long list of potential case studies (comprising countries from Africa, Asia and Latin America in line with the Terms of Reference), and then narrow the list down to a set of three final country case studies.

We begin by presenting a categorisation which divides countries into three groups, illustrating the three broad contexts in which the EC operates:

- **Fragile:** countries selected on the basis of having had “fragile state” (formerly LICUS) status (severe, core or marginal) in one of the last four years;
- **Aid Dependent:** countries selected on the basis of low income status (based on GNI per capita in 2005) with no fragile/LICUS status in last four years *and* total aid receipts (from all donors) in 2005 greater than 2% of GDP, and;

- **Lower Middle Income (LMI):** countries selected on the basis of lower middle income status (based on GNI per capita in 2005) and no “fragile state” (formerly LICUS) status (severe, core or marginal) in last four years.

The three categorisations, once applied to the cross-country database, produce lists containing 38, 20 and 50 countries respectively. Tables 1, 2 and 3 below present the top 20 countries for each category in fulfilment of the Terms of Reference. Section 5 then singles out a set of three countries (one each per category) that we recommend to use as the case studies for this project, with associated justifications.

Table 1: Top 20 Fragile States

#	COUNTRY_NAME	Region	LICUS Classification on 2005	LICUS Classification on 2006	Income Group	GNI/CAP_2005	Number of EU Bilaterals	Aid Disbursed in 2005								
								Millions of USD					% GDP of Recipient			
								EC	EC - Net of Humanitarian Aid	Humanitarian Aid Value	EU Bilat.	EC + EU Bilateral Total	All Donors	EC	EU Bilat.	All Donors
1	Afghanistan	South Asia	Severe	Severe	Low ..		19	256.62	200.75	55.87	593.47	850.09	2,775.34	3.6	8.3	38.7
2	West Bank	Middle East & North Africa	Core	Core	Low ..		18	206.71	157.92	48.79	269.59	476.3	1,101.63	#####	#VALUE!	#VALUE!
3	Congo, Dem	Sub-Saharan Africa	Core	Core	Low	120	17	213.58	150.75	62.83	465.19	678.77	1,827.57	3.1	6.7	26.2
4	Nigeria	Sub-Saharan Africa	Core	Core	Low	560	15	137.9	137.9	0	5,704.72	5842.62	6,437.31	0.1	5.8	6.5
5	Sudan	Sub-Saharan Africa	Severe	Core	Low	640	18	212.8	95.56	117.24	564.99	777.79	1,828.58	0.8	2	6.6
6	Sierra Leone	Sub-Saharan Africa	Severe	Marginal	Low	220	15	85.64	74.53	11.11	94.09	179.73	343.4	7.2	7.9	28.8
7	Niger	Sub-Saharan Africa	Marginal	NA	Low	240	16	78.46	72.66	5.8	166.55	245.01	515.43	2.3	4.9	15.1
8	Chad	Sub-Saharan Africa	Severe	Marginal	Low	400	14	84.63	63.17	21.46	78.09	162.72	379.83	1.5	1.4	6.9
9	Angola	Sub-Saharan Africa	Severe	Core	Low	1,350	17	70.29	51.46	18.83	138.31	208.6	441.82	0.3	0.5	1.6
10	Burundi	Sub-Saharan Africa	Core	Core	Low	100	16	85.11	46.44	38.67	104.31	189.42	365	10.6	13	45.6
11	Haiti	Latin America & Caribbean	Severe	Core	Low	450	11	55.91	41.34	14.57	107.43	163.34	514.97	1.3	2.5	12.1
12	Cameroon	Sub-Saharan Africa	NA	NA	Low	1,010	17	39.3	39.3	0	263.97	303.27	413.79	0.2	1.6	2.4
13	Tajikistan	Europe & Central Asia	Core	Marginal	Low	330	12	35.96	24.02	11.94	20.06	56.02	241.37	1.5	0.9	10.4
14	Yemen, Rep	Middle East & North Africa	NA	NA	Low	600	14	27.05	24	3.05	117.38	144.43	335.93	0.2	0.8	2.3
15	Eritrea	Sub-Saharan Africa	Marginal	Core	Low	220	13	29.33	23.81	5.52	52.66	81.99	355.15	3	5.3	36
16	Solomon Is	East Asia & Pacific	Severe	Core	Low	590	2	22.76	22.76	0	4.31	27.07	198.24	8	1.5	69.4
17	Kyrgyz Rep	Europe & Central Asia	NA	NA	Low	440	15	17.99	17.86	0.13	51.42	69.41	268.45	0.7	2.1	11
18	Cambodia	East Asia & Pacific	Core	Core	Low	380	15	20.25	17.45	2.8	128.42	148.67	537.82	0.4	2.4	10
19	Liberia	Sub-Saharan Africa	Severe	Severe	Low	130	15	52.99	16.31	36.68	45.43	98.42	236.18	9.7	8.3	43.1
20	Guinea-Bis	Sub-Saharan Africa	Core	Core	Low	180	9	16.26	16.26	0	35.57	51.83	79.12	5.4	11.8	26.3

Table 2: Top 20 Aid Dependent States

#	COUNTRY_NAME	Region	Income Group	GNI/CAP_2005	Number of EU Bilaterals	Aid Disbursed in 2005						
						Millions of USD				% GDP of Recipient		
						EC	EC - Net of Humanitarian Aid	EU Bilat.	All Donors	EC	EU Bilat.	All Donors
1	Mozambique	SSA	Low inc.	310	16	162.57	161.85	510.28	1,285.90	2.5	7.7	19.4
2	Ethiopia	SSA	Low inc.	160	17	163.47	146.31	434.36	1,937.32	1.5	3.9	17.3
3	Tanzania	SSA	Low inc.	340	17	155.76	141.61	616.82	1,505.11	1.3	5.1	12.4
4	Madagascar	SSA	Low inc.	290	11	137.31	136.72	359.74	929.15	2.7	7.1	18.4
5	Zambia	SSA	Low inc.	490	15	139.08	133.02	479.20	945.03	1.9	6.6	13.0
6	Mali	SSA	Low inc.	380	14	130.45	128.95	234.40	691.46	2.6	4.6	13.6
7	Kenya	SSA	Low inc.	530	17	113.53	109.28	263.80	768.33	0.6	1.5	4.3
8	Burkina Faso	SSA	Low inc.	400	13	101.16	101.16	262.42	659.56	2.0	5.1	12.8
9	Ghana	SSA	Low inc.	450	16	77.42	77.42	426.36	1,119.93	0.7	4.0	10.5
10	Bangladesh	South Asia	Low inc.	470	16	78.31	76.97	403.85	1,320.54	0.1	0.7	2.2
11	Rwanda	SSA	Low inc.	230	15	90.99	75.89	205.48	575.99	4.3	9.6	27.0
12	Malawi	SSA	Low inc.	160	15	72.61	69.42	182.40	575.34	3.5	8.8	27.8
13	Uganda	SSA	Low inc.	280	17	83.20	57.69	384.97	1,198.04	1.0	4.4	13.8
14	Vietnam	E. Asia & Pacific	Low inc.	620	18	42.41	42.30	509.48	1,904.87	0.1	1.0	3.6
15	Benin	SSA	Low inc.	510	13	37.83	36.79	145.88	349.05	0.9	3.4	8.1
16	Senegal	SSA	Low inc.	710	16	32.77	32.77	345.11	689.25	0.4	4.1	8.3
17	Mauritania	SSA	Low inc.	560	11	14.80	14.80	83.29	190.37	0.8	4.4	10.1
18	Mongolia	E. Asia & Pacific	Low inc.	690	16	6.36	5.80	53.57	211.85	0.3	2.8	11.3
19	Nepal	South Asia	Low inc.	270	16	9.79	2.94	174.76	427.92	0.1	2.4	5.8
20	Bhutan	South Asia	Low inc.	870	7	2.06	2.06	31.92	90.02	0.2	3.8	10.7

Table 3: Top 20 Lower Middle Income States

#	COUNTRY_NAME	Region	Income Group	GNI/CAP_2005	Number of EU Bilaterals	Aid Disbursed in 2005						
						Millions of USD				% GDP of Recipient		
						EC	EC - Net of Humanitarian Aid	EU Bilat.	All Donors	EC	EU Bilat.	All Donors
1	Morocco	Middle East & North Africa	LMI	1,730	16	293.09	292.99	350.85	651.83	0.6	0.7	1.3
2	Egypt, Arab Rep.	Middle East & North Africa	LMI	1,250	17	182.83	182.83	265.13	925.86	0.2	0.3	1.0
3	Bosnia and Herzegovina	Europe & Central Asia	LMI	2,440	19	164.52	163.28	185.60	546.08	1.8	2.0	5.8
4	Serbia and Montenegro	Europe & Central Asia	LMI	3,280	19	157.50	157.50	451.64	1,131.66	0.6	1.7	4.2
5	Ukraine	Europe & Central Asia	LMI	1,520	18	102.14	102.14	121.99	409.55	0.1	0.1	0.5
6	Tunisia	Middle East & North Africa	LMI	2,890	14	96.64	96.64	231.49	376.49	0.3	0.8	1.3
7	Albania	Europe & Central Asia	LMI	2,580	17	77.75	77.74	115.02	318.67	0.9	1.4	3.8
8	China	East Asia & Pacific	LMI	1,740	17	66.87	65.73	526.37	1,756.88	0.0	0.0	0.1
9	Algeria	Middle East & North Africa	LMI	2,730	15	56.95	50.28	281.67	370.57	0.1	0.3	0.4
10	Macedonia, FYR	Europe & Central Asia	LMI	2,830	18	47.62	47.62	88.96	230.32	0.8	1.5	4.0
11	Peru	Latin America & Caribbean	LMI	2,610	17	42.15	41.81	156.51	397.78	0.1	0.2	0.5
12	Moldova	Europe & Central Asia	LMI	880	16	40.44	40.44	64.47	191.75	1.4	2.2	6.6
13	Bolivia	Latin America & Caribbean	LMI	1,010	14	39.38	39.37	220.72	582.87	0.4	2.4	6.2
14	Colombia	Latin America & Caribbean	LMI	2,290	17	54.92	38.51	97.27	511.09	0.0	0.1	0.4
15	Jordan	Middle East & North Africa	LMI	2,500	15	37.20	36.97	51.67	622.00	0.3	0.4	4.8

16	Indonesia	East Asia & Pacific	LMI	1,280	17	72.13	35.65	505.58	2,523.52	0.0	0.2	0.9
17	Ecuador	Latin America & Caribbean	LMI	2,630	15	35.06	34.77	100.50	209.54	0.1	0.3	0.6
18	Nicaragua	Latin America & Caribbean	LMI	910	14	53.39	33.61	319.49	740.07	1.1	6.5	15.1
19	Syrian Arab Republic	Middle East & North Africa	LMI	1,380	12	32.86	32.82	47.15	77.85	0.1	0.2	0.3
20	Georgia	Europe & Central Asia	LMI	1,350	17	35.86	31.93	100.94	309.77	0.6	1.6	4.8

5. Countries Recommended as Case Studies

From this long list of 60 countries, in this Section we produce a short list of three countries that in our view are the best suited to serve as case studies for the project. To draw this short list, we rely on several criteria intended to allow us to identify the optimal case study candidates based on diversity, interest in terms of EU aid effectiveness, and resources at hand to carry out the case studies. More specifically, we rely on the following criteria:

- Geographic spread and diversity
- Countries not dominated by humanitarian assistance (following the mandate of the Committee to focus on development cooperation)
- Significance/presence of EU donors
- Practicality and feasibility of the case studies so as to maximise ODI's experience given limited resources and time

Based on these criteria, our proposed short list looks as follows:

- Cambodia (Fragile)
- Mozambique (Aid Dependent)
- Peru (Lower Middle Income)

In our view, the combination of these three countries offers tremendous potential to analyse experiences with EC/EU Members aid and to draw lessons based on those experiences to make aid more effective.

Cambodia: A large number of fragile states are also experiencing ongoing conflict. In many contexts this appropriately results in a significant humanitarian spend. The objectives of humanitarian aid are to 'save lives, alleviate suffering, and maintain human dignity during and in the aftermath of man-made crises and natural disasters'.⁷ These objectives are distinct from those of development aid, which aims to reduce poverty, promote growth, and strengthen government institutions and state capacity. While recognising the primary responsibility of states for victims of humanitarian crises, humanitarian assistance is also often delivered directly through operational agencies due to a lack of state will and/or capacity. This situation is most common in fragile states.

Given the distinctiveness of humanitarian aid and its differing objectives, 'effectiveness' is likely to be defined and perceived differently to that of development aid. We therefore believe that the analysis of EC aid effectiveness in a fragile state context will be strengthened by selecting a case study in which the large majority of EC expenditure is development assistance, not humanitarian aid. Table 1 in Section 4 above shows EC aid disbursed net of humanitarian aid. Those countries with small or no humanitarian expenditure are shaded and are recommended as more appropriate countries from which the fragile states case study should be selected.

⁷ *Principles and good practice of Good Humanitarian Donorship* endorsed by the EC and a large number of EU governments in Stockholm 2003 and accepted by the OECD/DAC in 2006.

Table 1 also shows the World Bank LICUS classification for individual fragile states (severe, core or marginal). We recommend that the selection of the fragile states case study be limited to those countries classified as severe or core, given that a marginal classification indicates that the country's CPIA is on the edge of what is considered LICUS. A marginal country may therefore not provide a context sufficiently different from those countries classified as aid-dependent.

Once the list of twenty fragile states is filtered based on humanitarian spend and LICUS classification, five countries stand out as possible case study choices: Nigeria, Eritrea, Solomon Islands, Cambodia, and Guinea-Bissau. From this short list Cambodia is strongly recommended as the most appropriate case study based on:

- The number of EU bilaterals involved in the country and the volume of overall EU aid disbursed
- LICUS classification as 'core' in both 2005 and 2006
- Regional spread across the three case study countries selected

Mozambique: As illustrated in Table 2 above, Mozambique is the largest recipient of EC aid net of humanitarian assistance and also receives large volumes of overall EU aid, making it an ideal candidate for the case study. In addition, ODI has a very strong track record of working in Mozambique and has considerable experience with and intimate knowledge of the aid environment in the country. Finally, Mozambique also offers regional spread based on all the case studies selected.

Peru: As Table 3 above illustrates, Peru is the largest recipient of EC aid in Latin America under the Lower Middle Income category. In addition, there are a large number of EU bilateral agencies involved in the country (17). Because Peru has been in the midst of a significant political and economic transformation over the past decade, it offers a compelling opportunity to analyse the effectiveness of donor efforts to promote country ownership and good governance reforms, and to explore the implications of the Paris Agenda on harmonisation and alignment. In addition, ODI has a growing Latin America group which includes researchers from both Peru and Mexico who have an intimate knowledge of the political, economic and social processes impacting the region.

ANNEX 2
METHODOLOGY FOR THE CASE STUDIES

Methodology for the Case Studies

Prepared by ODI

April 2007 (Updated May 2007)

**To support field visits for the EU Aid Effectiveness project
commissioned by the European Parliament's Committee on
Development**

Purpose of this Document

This document is intended to provide guidance to the researchers carrying out the three case studies (Cambodia, Mozambique, and Peru) for this project. It describes the overall process, outlines a series of themes and questions that need to be addressed in the field, and provides a broad outline for the case study reports, to be tailored by each case study author as they see fit.

The paper is organised as follows:

1. Overall process
2. A set of tables outlining key themes and questions for the study, divided in the following categories:
 - Setting the context and analysing perspectives on national policy and public expenditure management
 - EC Strategy Development, Programming and Modality Choice
 - EC Financing – Disbursements, Procurement Etc.
 - EC’s Role in Aid Management and Donor Coordination
3. Brief list of useful documents that case study authors should be familiar with
4. A suggested country case study report outline

1. Overall Process

The overall process involving the planning and carrying out the case studies and writing the case study reports entails the following steps:

- Distribution of methodology and requests for interviews
- Desk-based review of aid flow data (paper titled ‘Case Study Selection Methodology Paper’ prepared by Geoff Handley, which has been sent to all case study authors already) and existing studies (desk-based reviews undertaken by case study authors)
- Country Visit

Some of the main steps involved in the country visit include the following:

- initial briefing with EC Delegation – **this is an essential first step** to keep the EC Delegation informed about what this project is about and what it entails, as well as to ask the EC Delegation for support in terms of interviewing staff, accessing useful documents, etc.
- review of key evaluations, assessments, and other documents, both from the EC Delegation and other donors/sources as appropriate

- meetings/interviews with key stakeholders (delegation [different groupings], other donors [EU bilaterals, Development Banks, UNDP, other multilaterals], Government [aid management, Ministry of Finance and other significant line ministries], civil society [think tanks, academics, NGOs, etc] where appropriate)
 - de-briefing with the EC Delegation
- Draft country report (20 pages maximum)
- Submit draft to ODI team manager (Alina)
- Share a draft with the Delegation for informal comment
- 2nd draft of country report to the EP Secretariat for comments
- Synthesis report
- Comments and revisions
- Presentation to European Parliament

2. Set of tables outlining key themes and questions for the study

As discussed, the themes and questions that we seek to address have been divided into four broad categories. In combination, the themes and questions listed in Tables 1, 2, 3, and 4 seek to provide information on the following:

- Background questions that address the overall context of aid in the country.
- Internal coherence and connectedness of EC international assistance
- Country ownership of development strategy and donor alignment with those priorities and objectives
- Harmonisation

A few things to keep in mind from the outset:

- Each table outlines what issues/questions need to be addressed primarily through desk analysis/background, and which need to be addressed through filed-based analysis and interviews. This is intended to assist the researcher in establishing clear priorities as to the kind of material that can only be generated through interviews, and the kind of information that can be found through a desk review.
- We have attempted to draft open-ended questions and limit ourselves to 8-10 questions in each category so as to provide guidance to the researchers about the kinds of issues we would like the case studies to cover without prejudging the answers. It will be up to each researcher to follow up on these questions as s/he sees

fit based on the kind of information s/he finds. The researcher should exercise his/her judgment about what questions will be the most important to ask depending on whom s/he is speaking with and what additional information s/he needs.

- In the measure possible, researchers should try to keep good notes of each of their interviews. In addition to the case study reports, these notes will be extremely useful to the ODI team manager when drafting the synthesis report.
- An important goal of this project is to identify areas where progress has been made in terms of internal coherence/connectedness, alignment, and harmonization, discuss some of the main challenges to aid effectiveness, and draw out emerging lessons from each of the case studies, so please do keep this in mind when conducting interviews and reviewing documents.

Tables of themes and questions:

1. Setting the context and analysing perspectives on national policy and public expenditure management	
Desk Analysis/Background:	
<ul style="list-style-type: none"> • What is the country situation regarding: (i) political and governance issues; (ii) economic development; (iii) poverty and social indicators, and; (iv) overall levels of aid and modalities received? • Who are the main donors and what are their areas/sectors of priority? • Does the country-led national development strategy have both a long-term vision and a medium-term strategy? Are there specific targets? • Is the development plan linked to the budget and an MTEF? • Is there a separate document outlining the desired role for external assistance? • Are forums and initiatives established at the national (and subnational) level to promote the implementation of the Paris Declaration? • Has a PEFA or other type of PFM assessment been conducted? If so, what was the outcome? 	
Field-Based Analysis / Interview Questions	Notes
a) What is your perception of the quality of the national development plan and the process for its development?	CSO involvement
b) In your view does the national development plan provide a clear guide for donor prioritisation?	E.g. Choice between sectors?
c) Are government officials and other relevant stakeholders aware of the principles and goals embedded in the Paris Declaration and associated efforts?	
d) What is the process for developing and monitoring implementation of the national development plan? Is it inclusive, broadly participatory, and	

representative?	
e) Is it possible for donors to align behind the national development strategy and national processes? If not, why not?	
f) What systems exist to promote harmonisation with other donors and how operative are they?	Streamlined reporting and mgt requirements, clear harmonisation goals etc

2. EC Strategy Development, Programming and Modality Choice

These questions could also be asked of other donors to enable comparison

Desk Analysis/Background:

- What is the EC policy and procedure for country strategy development? How much of the process is determined/mandated by headquarters and how much is determined at the Delegation level?
- How are budget allocations to individual countries (through EDF, DCI and thematic budget lines) determined?
- What is the size of the EC budget and through what budget lines is funding being provided?
- Is there a current country strategy paper?
- Does it include funding from all different EC streams?
- What is the sectoral breakdown of EC development assistance?
- Through what modalities is EC assistance being channelled? (E.g. Any SWAps, SBS, GBS, or multi-donor trust funds etc) Who is delivering this assistance? (E.g. UN vs. NGO etc)

Field-Based Analysis / Interview Questions	Notes
a) Is the timing of the country strategy development process determined by headquarters or by the delegation? Is there sufficient flexibility to ensure alignment with the timing of government planning and budget processes?	
b) How do EC programming and strategy decisions relate to the national development plan? Is it possible for the EC to fully align behind these national strategies? If not, is this due to the quality of government processes of EC procedures? Does this apply equally to funding from all budget lines?	Is EC aid being disbursed through a programme-based approach with govt leadership, single framework etc?
c) If the quality of government processes is constraining donor alignment with country development priorities, are there systems in place to monitor progress? Are benchmarks that could result in a shift in EC approach clear?	
d) Does the EC Delegation have different responsibilities or authority for thematic budget lines to country programming (EDF or DCI)?	
e) How are decisions made regarding programming allocations (between sectors) and modalities? Is this done in-country (for all budget lines)?	How have deconcentration reforms impacted on this?
f) How are programming decisions influenced by other donors?	Different for EU and non EU?
g) Can you provide some examples of particularly good donor alignment to country policy priorities, and what lessons can be derived from them?	Identify key lessons and constraints (e.g. are constraints due to HQ

In your view, are there ways the EC approach to programming and strategy development could be made more efficient, effective or coherent?	processes or policies?, etc)
h) What do you see as the key constraints to high quality aid management?	
i) How is M&E undertaken? Does this differ across modalities and budget lines? How are lessons fed back into programming?	

3. EC Financing – Disbursements, Procurement Etc.

Desk Analysis/Background:

- Approximately what proportion of EC aid is managed by the use of national procedures (PEFA indicator D – 3)? In particular what proportion of EC aid flows:
 - Are captured: (i) in the state budget; (ii) in the national Treasury, and; (iii) in state external audit documents (N.B. difficult to obtain – may need to follow-up at interview).
 - Follow government procurement processes.
- What does the available data reveal about EC aid predictability of different modalities when programmed commitments are compared with actual disbursements (PEFA D – 1)?
- How far are EC disbursements linked to government performance for different modalities (e.g. note the use of variable tranche or triggers)? Are such performance triggers imposed on commitments or disbursements?
- What systems are in place for relaying timely and adequate information on donor (and EC in particular) financial information (both for budgeting and reporting) to government (PEFA D – 2)?

Field-Based Analysis / Interview Questions	Notes
a) Is financial information provided by the EC for budgeting and reporting on project and programme aid adequate and timely (PEFA D – 2)?	Directed to officials of MoF or Planning and sectors for SWApS
b) If there is unpredictability in EC aid disbursements, what are the principal causes of this? What sort of impacts has it had on government activities (e.g. global liquidity constraints or sectoral implementation delays)?	“Unpredictability” = differences between commitments and disbursements in terms of levels <i>and</i> timing
c) What is your perception of the quality of country PFM systems against accepted PEFA benchmarks (credibility of the budget, accounting, reporting, audit, procurement procedures)? What types of reforms are in place to promote improved practices? What is the EC’s involvement?	This will apply both globally for GBS and sectorally for SWApS. Note that is question is closely related to question c in section 2 above
d) What is the potential for achieving greater integration with government systems without compromising aid effectiveness? Does the EC have a particular strategy to work towards greater reliance on country systems as stipulated by the Paris declaration? How is progress tracked (e.g. PEFA)?	
e) What is the balance between the use of Project Implementation Units (PIUs) and country / national systems in the disbursement of EC aid?	
f) Can you think of one or two programmes that are particularly good examples of EC alignment to government systems? What lessons can be derived from these examples for the EC as a whole?	Same as question g in section 2 above, but here emphasis is on SYSTEMS rather than

	POLICY
g) What are the main constraints on progress on systems alignment (e.g. HQ requirements for needs assessment / analysis etc.)?	

4. EC's Role in Aid Management and Donor Coordination

Desk Analysis/Background:

- How many EU member aid programmes are there in the country?
- Are many of them newly established?
- What is the prospect for new EU members to establish bilateral cooperation programmes in-country, and what kind of impact is that likely to have on donor harmonisation/coordination efforts?
- What percentage of EC funds is channelled through joint systems or programmes?

Field-Based Analysis / Interview Questions	Notes
a) Within the EC, what systems exist to promote harmonisation with other donors and how operative are they? To what extent are EC policy, programming processes and procedures able to be harmonised with those of other donors (budget allocation and disbursement procedures, predictable funds release, procurement systems etc)? Are there any system, policy or process constraints to harmonisation? How could these best be overcome?	Both policy and programme relevant
b) What role should the EC Delegation be playing with respect to EU member harmonisation? Is it currently playing this role? What constraints does it face in doing so?	
c) Are there instances where the EC has sought to simplify its systems, develop common procedures, and/or initiate joint activities (e.g. missions, analytical work, evaluations, etc) with other donors?	Joint – missions, analysis, performance measurement
d) Can you provide one or two examples of harmonised working in-country (GBS, SWAp, pooled TA)? How successful have such efforts been? How much has donor behaviour changed?	
e) What is/are the EC's comparative advantage(s) in the provision of development assistance? Is it in fact leading other donor efforts in this area(s)? If not, why not?	
f) What kind of impact are EU expansion and the establishment their own bilateral aid programmes likely to have on harmonisation efforts at the country level? What role could the EC play in this regard? Could it play an overall coordinating role – and should it? Any experience in this regard already?	Also 'older' EU members establishing programmes in new countries
g) What kind of capacities would the EC need to acquire to play a different role?	
h) Are there any experiences and lessons relating to donor harmonisation in this country, and/or the EC's role, that could have broader relevance?	

3. Brief list of useful documents that case study authors should be familiar with:

- Paris Declaration and its 12 indicators:
http://www.oecd.org/document/18/0,2340,en_2649_3236398_35401554_1_1_1_1,00.html
<http://www.oecd.org/dataoecd/57/60/36080258.pdf>
- OECD DAC documents on Paris Declaration monitoring processes for each country as available
- Individual country Joint Staff Assessment Note
- Country reports, evaluations, assessments produced by EC Delegations as well as other donors
- Documents that have been distributed by the project manager, including the case study selection methodology paper produced by ODI for this project and others

4. Country case study outline:

A. Introduction and Summary

- Purpose of country report
- Approach
- Key findings
- Key lessons (including good practices)

B. Background: Country context and aid context

- Political and governance issues
- Economic development
- Poverty and social indicators
- Overall levels of aid, aid dependence, and types of aid received
- EC aid contributions
- Structure of EC aid, including budget lines
- Trends and future prognosis

C. Country progress in developing national development strategy and exercising ownership over the development process

- Mechanisms that are in place to identify country development priorities and objectives (e.g. PRS)
- Progress made so far based on such mechanisms
- Degree of representation/legitimacy/participation that those processes have
- Assessing degree of 'national' ownership by governmental and non-governmental stakeholders

D. Donor (EC) progress on Alignment

E. Donor (EC) progress on Harmonisation

F. Internal coherence of EC assistance programme in country

G. Key lessons emerging and considerations for the European Parliament

ANNEX 3

CAMBODIA: LIST OF PEOPLE INTERVIEWED

1. His Excellency Dr. Hang Chuon Naron, Secretary General, Ministry of Economy and Finance
2. Dr Rith Vuthy Director – Europe Department, CDC/CRDB
3. CHOU Heng, National Policy Adviser, Head CDC Policy Department
4. Philip Courtnadge, Senior Adviser, UNDP/CRDB
5. Seth Van Doorn, Political and Commercial Affairs Officer, Charge D’Affaires a.i, Delegation of the European Commission to Cambodia
6. Daniel Costa Lobet First Secretary, EC Delegation
7. Christian Prevost, Counsellor Economic, Delegation of the EC to Cambodia
8. Simone Seper, Education and Health Sectors, Delegation of the EC to Cambodia
9. Andrew Jacobs, Head of Operations, EC Delegation, Bangkok
10. Delphine Brissonneau, Rural Development Sector, EC Delegation, Bangkok
11. Jolanda Jonkhart, PFM Sector, Delegation of the EC to Cambodia
12. Carol Strickler Executive Director, Cooperation Committee for Cambodia
13. Mia Hyun Poverty Specialist, World Bank, Cambodia Country Office
14. Tim Conway, Poverty Specialist, World Bank, Cambodia Country Office
15. Rob Taliercio, Senior Country Economist, World Bank, Cambodia Country Office
16. Peter Murphy, PFM Reform Programme, World Bank, Cambodia Country Office
17. Beng Simeth, Human Development Operations Officer, World Bank, Cambodia Country Office
18. Ann Lund, Coordinator UN, Office of the UN Resident Coordinator in Cambodia
19. Eva Smedberg, Counsellor, Swedish International Development Agency (SIDA), Resident Representative
20. Eiichiro Hayashi Aid Coordination Adviser, Japan International Cooperation Agency (JICA)
21. Guillaume Prevost Economic Counsellor, French Embassy
22. Helen Appleton, Social Development Adviser, DFID, Co Lead Facilitator of Partnership and Harmonisation Technical Working Group, First Secretary

ANNEX 4

CAMBODIA: CURRENT EC PROJECTS

List of EC projects currently ongoing in Cambodia
Source: CDC Database

1	A model of development of Cambodian Crafts and SMEs	1-Apr-2005	1-Jan-2007	163,869.00 EUR	Completed
2	A project to develop, introduce and scale up a model for QVCT for HIV into clinics in Cambodia, Vietnam and Myanmar	1-Jul-2005	30-Jun-2008	862,910.00 EUR	On-going
3	Advanced livelihood and sustainable development for indigenous people in Ratanakiri Province, Kingdom of Cambodia	1-Jan-2007	1-Jul-2009	870,680.00 EUR	On-going
4	Advancing and Promoting Human Rights for Displaced and Marginalized Communities in Cambodia through a National Human Rights Education Campaign	29-Dec-2006	31-Jan-2009	128,281.00 EUR	On-going
5	Amélioration des conditions de vie et des perspectives d'avenir des enfants cambodgiens en milieu rural	1-Jul-2001	11-Oct-2006	1,015,258.15 EUR	Completed
6	Appui a l'economie paysanne dans les zones sensibles au risque agricole	1-Jun-2002	28-Feb-2006	1,012,500.00 EUR	Completed
7	ASEAN Centre for Biodiversity (ACB)	1-Dec-2005	31-Dec-2009	730,000.00 EUR	On-going
8	ASEM Anti Money Laundering Initiative	20-Dec-2001	19-Dec-2005	449,451.00 EUR	Completed
9	Block Grant 2004	22-Dec-2005	1-Jan-2008	497,408.00 EUR	On-going
10	Block Grant 2005 Cambodia	16-Dec-2006	16-Dec-2009	935,000.00 EUR	On-going
11	Building the Capacity of Disability Rights Movements in Cambodia	29-Dec-2005	1-Jan-2010	1,021,060.04 EUR	On-going
12	Cambodia 2000: Training on Water Management and installation of a water system in Taing Krasaing, Phase II	10-Dec-2004	30-Nov-2007	860,000.00 EUR	On-going
13	Cambodia Farmer Food Security Project In Mesang And Romeas Hek Districts Of Prey Veng And Svay Rieng	1-Jun-2002	28-Feb-2006	1,577,490.00 EUR	Completed
14	Cambodian Defender's Project (CDP) Legal Aid and Rule of Law Advocacy Action	20-Jan-2005	1-Jan-2009	1,158,383.00 EUR	On-going
15	Cambodian Freshwater Fisheries Export Training - Asia Invest	1-May-2005	1-Jan-2007	91,835.96 EUR	Completed
16	Capacity Building and Policy Reinforcement in Cambodia in the Field of Waste Management	1-Feb-2004	28-Feb-2006	394,975.01 EUR	Completed
17	Capacity building for pluralistic democratic structures on commune level in Cambodia	5-Apr-2002	4-Mar-2006	753,391.10 EUR	Completed
18	Capacity Building for the Rights of Indigenous Peoples in Cambodia	7-Dec-2006	1-Jan-2009	194,980.00 EUR	On-going
19	Child Friendly School Development (CFSD) Project Cambodia	1-Jan-2007	13-Jul-2011	1,015,903.00 EUR	On-going
20	Children's Legal Protection	29-Dec-2003	1-Jan-2008	1,436,142.00 EUR	On-going

21	CITYBLUES: Practical implementation of ecological and engineering principles in integrated storm water management	14-Apr-2004	14-Apr-2007	408,991.45 EUR	Completed
22	Community Based Health and Development Project	29-Dec-2006	1-Jan-2012	978,987.86 EUR	On-going
23	Community Child Rights Project	1-Jan-2007	1-Jan-2009	31,620.00 EUR	On-going
24	Community Management and Capacity Building for self-reliant and sustainable poverty alleviation in Cambodia	27-Dec-2006	1-Jan-2010	401,424.41 EUR	On-going
25	Community-led poverty reduction in former conflict zones in North-West Cambodia	16-Dec-2005	1-Oct-2010	999,800.00 EUR	On-going
26	Concept of wastewater treatment and implementation of a pilot plant in the city of Battambang	20-Dec-2006	1-Aug-2010	726,101.28 EUR	On-going
27	Definition of the curriculum and training of all instructors for start up of a new and full cycle of maritime navigation training and education in Cambodia	1-Sep-2004	1-Aug-2007	404,282.38 EUR	On-going
28	Degree in Information Technology Services	24-Mar-2005	1-Jan-2007	171,242.00 EUR	Completed
29	Development of a virtual transport community in Cambodia	1-Jan-2005	31-Mar-2006	221,276.00 EUR	Completed
30	Development of SMEs in the Agro Industry Sector in Cambodia	8-Jan-2007	31-Dec-2012	11,300,000.00 EUR	Pipeline
31	Developpement Communautaire et Socio-Economique de familles defavorisees reimplantees en milieu periurbain a Phnom Penh	1-Mar-2004	1-Mar-2008	1,061,762.00 EUR	On-going
32	Developpement de la lecture pour les enfants au Cambodge	22-Jan-2002	1-May-2005	670,186.45 EUR	Completed
33	Drug Prevention and Harm Reduction Programme for Street Children Using Substances	15-Jan-2001	10-Aug-2005	352,722.51 EUR	Completed
34	EC General Budget Support to Cambodia	1-Dec-2007	31-Dec-2010	22,200,000.00 EUR	Pipeline
35	EC-ASEAN Intellectual Property Rights Programme (ECAP II) - Cambodia	29-Jul-2005	1-Jan-2008	500,000.00 EUR	On-going
36	EC-Cambodia Standards, Quality and Conformity Assessment	1-Aug-2005	5-Apr-2007	422,150.00 EUR	Completed
37	ECOSORN - Economic and Social Relaunching of the Northwestern Provinces	7-Dec-2005	31-Dec-2010	26,000,000.00 EUR	On-going
38	Efficient Production Training Programme for Cambodia	1-Sep-2004	1-Sep-2005	93,300.00 EUR	Completed
39	Empowering disadvantaged urban and rural communities for the defence of their basic human rights in the course of land conflicts and development process.	6-Dec-2006	1-Dec-2009	78,808.00 EUR	On-going
40	Empowering Local Communities	1-May-2005	31-May-2006	101,148.00 EUR	Completed
41	Enhancing Implementation of UNCRC and Cambodian Law in Battambang Province	29-Dec-2006	31-Jan-2010	110,130.00 EUR	On-going
42	Establishing a Policy in the Disposal of Dry Batteries in Cambodia (BATCAM)	19-Dec-2005	1-Sep-2007	219,481.61 EUR	On-going
43	EU - Southeast Asia Civil Aviation Cooperation Project	29-Dec-2000	31-Dec-2007	797,634.60 EUR	On-going

44	EU-Cambodia Smallholder Livestock Production Project	1-Apr-2005	31-Dec-2011	4,483,108.00 EUR	On-going
45	European Fund for Micro Projects (EFMP)	14-Jul-2004	30-Jun-2011	2,018,180.00 EUR	On-going
46	Food Security for vulnerable rural population in Banteay Mean Chey Prov.	1-Apr-2002	28-Dec-2006	718,004.00 EUR	Completed
47	Food Security in Padek project areas	16-Jul-2002	30-Jun-2006	1,082,286.00 EUR	Completed
48	Food Security Programme in Battambang and Kampong Speu	1-Jan-2002	1-Jan-2005	1,141,249.00 EUR	Completed
49	Fostering a culture of disabled persons in Cambodia	30-Dec-2006	1-Jan-2009	161,281.60 EUR	On-going
50	Gate Project: Enhancing Livelihood Options for Girls through Advocacy, Training and Employment, Cambodia	11-Dec-2006	31-Dec-2012	975,000.00 EUR	On-going
51	Health Behavioural Change Communication (BCC)	17-Dec-2004	31-Dec-2009	5,000,000.00 EUR	On-going
52	Improving Access to Quality Primary Education for Cambodian Street and Out-of-School Children, Cambodia	19-Dec-2006	31-Dec-2010	1,000,000.00 EUR	On-going
53	Improving Livelihoods of Young Cambodians in Difficult Circumstances through Prevention and Sustainable Social Reintegration	17-Dec-2005	29-Dec-2011	1,683,752.00 EUR	On-going
54	Improving Local Governance Through Commune Council Partnership Strengthening	1-Jan-2006	1-Jan-2008	103,579.86 EUR	On-going
55	Improving quality practices in the rice and fish sector in Cambodia	29-Sep-2004	29-Sep-2006	148,751.00 EUR	Completed
56	Improving the enabling environment to provide community led family planning and reproductive health to poor and vulnerable communities across 9 provinces - CAMBODIA	29-Dec-2006	1-Jan-2010	842,176.00 EUR	On-going
57	Improving the Situation for Disadvantaged Groups in Rural Cambodia: A Capacity Building Approach to Community Mental Health Care	1-Jan-2006	1-Jan-2010	1,382,268.09 EUR	On-going
58	Increasing Community Action on HIV/AIDS Prevention integrated with Care and Impact Mitigation Efforts in Cambodia	28-Dec-2006	2-Jan-2012	2,911,776.00 EUR	On-going
59	Increasing the relevance and effectiveness of HIV/AIDS prevention and care among youths through Cambodia-Thailand partnership	1-Feb-2004	31-Jan-2007	5,378,376.00 EUR	Completed
60	Indigenous Minority Rights Project	1-May-2005	31-Jul-2006	103,042.00 EUR	Completed
61	Indigenous People Realising the Improvement of Good Health Through Sustainable Structures (IP RIGHTS) - Cambodia	29-Dec-2006	1-Apr-2011	920,226.29 EUR	On-going
62	Institutional Support Programme (ISP)	1-Jan-2004	30-Jun-2007	3,400,000.00 EUR	On-going
63	Integrated biodiversity conservation and development of the Cardamom Mountains	1-Aug-2003	30-Apr-2007	1,045,880.00 EUR	On-going
64	Integrated Environment Information System in Siem Reap (INTEGRITAS)	22-Dec-2005	1-Oct-2007	759,579.09 EUR	On-going
65	Integrated Food Security, Water and Sanitation Improvement Programme in Preah Vihear	1-Feb-2002	30-Jan-2006	940,553.00 EUR	Completed

66	Integrated Rural Development in Otdar Meanchey	1-May-2003	1-Aug-2006	716,968.00 EUR	Completed
67	Integrated rural development through empowerment project Thpong	1-Jan-2003	28-Feb-2006	931,016.40 EUR	Completed
68	Integrated Rural Development through empowerment project (IRDEP) Thpong II	12-Dec-2005	1-Jan-2011	1,000,000.00 EUR	On-going
69	Mainstreaming Inclusive Primary Education, Cambodia	20-Dec-2005	4-Jan-2011	1,812,972.00 EUR	On-going
70	Multilateral Trade Assistance Project (Multrap)	15-Jan-2004	14-Nov-2006	1,884,918.00 EUR	Completed
71	National Wood energy policy implementation in Cambodia	23-Jul-2002	24-Jan-2007	1,541,640.00 EUR	Completed
72	Open Source for Weed Assessment in Lowland Paddy Rice Fields (OSWALD)	31-Dec-2004	1-Jan-2007	451,500.00 EUR	Completed
73	Pailin Food Security Project	1-Jan-2007	1-Jan-2010	708,086.00 EUR	On-going
74	Poverty Alleviation through appropriate health interventions in Thmar Pouk	1-Jul-2003	1-May-2006	1,242,932.00 EUR	Completed
75	Powering Harbour Development in SE Asia using renewable energy	23-Mar-2005	23-Mar-2008	1,186,978.50 EUR	On-going
76	PRASAC II - Projet de rehabilitation et d'appui au secteur agricole du Cambodge phase 2	1-Jan-2000	31-Dec-2003	36,580,171.00 EUR	Completed
77	Preah Vihear integrated health care project	17-Jun-2002	17-Apr-2007	1,375,628.00 EUR	Completed
78	Prevention of road traffic injuries in Cambodia	29-Dec-2006	1-Jan-2010	982,692.00 EUR	On-going
79	Productivity challenge: Enhancing Cambodian service provision to SMEs and capacity building for integral service organisations	1-Sep-2005	1-Sep-2007	210,535.00 EUR	On-going
80	Programme éducatif et psycho-social pour les enfants de la province de Battambang	1-May-2001	1-Jul-2005	1,158,872.40 EUR	Completed
81	Project on developing the literary environment in order to improve the quality of education and to combat illiteracy in Cambodia	17-Dec-2005	31-Dec-2009	2,012,147.84 EUR	On-going
82	Projet d'accompagnement des familles vulnérables en milieu rural au Cambodge	20-Dec-2005	20-Dec-2010	1,207,565.14 EUR	On-going
83	Projet de réduction de la pauvreté par la structuration du monde rural dans les provinces de Battambang, Kompong Thom, Prey Veng, Takeo	1-Jan-2007	1-Jan-2011	826,047.00 EUR	On-going
84	Projet Système d'Assurance Santé (SAM)	1-Sep-2001	1-Oct-2005	398,532.08 EUR	Completed
85	Promote Human rights to reduce trafficking and sexual/labour exploitation of women and children	22-Dec-2005	10-Jun-2009	64,688.00 EUR	On-going
86	Promoting Community Forestry in Cambodia	1-Jun-2005	1-Jun-2010	1,623,529.00 EUR	On-going
87	Promotion and preservation of Human Rights in Rural Cambodia	1-Jan-2006	1-Jan-2008	129,950.00 EUR	On-going
88	Promotion d'Agriculture Paysanne dans la region de Prey Veng	1-Jan-2004	1-Jan-2008	426,806.00 EUR	On-going

89	Promotion of Human Rights and Legal Assistance in the Context of Sexual Behavior (EIDHR 2004)	21-Dec-2005	1-Jan-2009	800,022.00 EUR	On-going
90	Public Financial Management Reform	2-Dec-2006	2-Dec-2011	13,100,000.00 EUR	On-going
91	Reform of Battambang Province Administration	6-Jan-2003	5-Apr-2005	500,000.00 EUR	Completed
92	Renforcement de l'offre educative scolaire et non-scolaire dans le district de Samlot	1-Jan-2001	1-Nov-2004	1,062,654.42 EUR	Completed
93	Reproductive health initiative for youth in Asia (RHIYA) - phase II	26-Mar-2003	30-Sep-2007	2,648,571.43 EUR	On-going
94	Rights to Participation	12-Dec-2005	1-Jan-2007	120,252.73 EUR	Completed
95	Rural Cambodian Youth Sexual Reproductive Health (RCYSRH)	1-Jan-2006	20-Mar-2009	1,650,390.00 EUR	On-going
96	Rural Development for Vulnerable Displaced Populations in two North-West Provinces	1-Dec-2004	1-Dec-2007	749,900.69 EUR	On-going
97	Samroang Ampil Community Reintegration and Development	25-Apr-2002	25-Apr-2005	765,012.00 EUR	Completed
98	Securing Children's Rights in Cambodia	15-Jul-2004	14-Jul-2007	900,000.00 EUR	On-going
99	Small Grants Programme for Operations to Promote Tropical Forests (SGP PTF) ASEAN Regional Project	1-Dec-2000	1-Dec-2007	559,000.00 EUR	On-going
100	Strengthening democratic and decentralized local governance in Cambodia: building local capacity through networking and local-local contribution	20-Dec-2005	20-Dec-2010	10,500,000.00 EUR	On-going
101	Strengthening of Pilot City Administrations Battambang and Siem Reap	2-Dec-2004	1-Dec-2007	1,054,500.00 EUR	On-going
102	Strengthening the role of lawyers in Cambodia for a more equitable justice system	15-Jan-2006	15-Jan-2009	554,791.00 EUR	On-going
103	Support to Cambodia Trade Sector Development Programme	1-Jul-2007	1-Jul-2011	7,400,000.00 EUR	Pipeline
104	Support to the Khmer Rouge Tribunal (KRT)- Cambodian budget share of KRT operations	1-Jan-2006	31-Dec-2008	995,100.00 EUR	On-going
105	Support to the Khmer Rouge Tribunals via the Extraordinary Chambers and International Criminal Court Justice project	13-Dec-2006	1-Jan-2010	1,290,886.05 EUR	On-going
106	Sustainable trade for social enterprises, Cambodia	1-Jan-2006	15-Feb-2009	598,532.32 EUR	On-going
107	Targeted EC Support to Pro-poor Education Reform in Cambodia - Complementary Support	28-Mar-2003	30-Jun-2010	5,000,000.00 EUR	On-going
108	Targeted EC Support to Pro-poor Education Reform in Cambodia - Sector Budget Support	28-Mar-2003	30-Jun-2010	15,000,000.00 EUR	On-going
109	Technical Assistance, Cambodia Craft into the Market	17-Oct-2003	17-Oct-2005	77,089.34 EUR	Completed
110	The rehabilitation of disabled people in three provinces of Cambodia through the development of rehabilitation centres.	1-Jan-2001	1-Jan-2006	1,398,755.58 EUR	Completed
111	Towards the local ownership of the rehabilitation sector for People with Physical Disabilities (PWPD)- CAMBODIA	28-Dec-2005	1-Jan-2009	2,572,000.00 EUR	On-going

112	Unmet needs for comprehensive reproductive health information and services amongst vulnerable groups and the general population in four key locations	1-Jun-2003	1-Jun-2006	749,996.00 EUR	Completed
113	Upgrading the Cambodian Craft Cooperation (CCC) for trade promotion with the EU	4-Apr-2006	1-Oct-2008	306,798.00 EUR	On-going
114	Using Media to Raise Awareness and Participation in Decentralization.	1-Jan-2005	30-Jun-2006	122,692.00 EUR	Completed
115	Utilising the Buddhist monks and school students to prevent sexual abuse and child labour	9-Dec-2006	31-Dec-2009	114,478.00 EUR	On-going
116	Victim and Witness Protection Standards for the Khmer Rouge Tribunal and Beyond	4-Dec-2006	30-Sep-2009	500,000.00 EUR	On-going
117	Water, Sanitation and Food Security in Otdar Meanchey	1-Dec-2004	1-Jan-2008	663,996.00 EUR	On-going
118	Women Speaking Out on Human Rights	9-Dec-2006	9-Jun-2008	118,576.25 EUR	On-going
119	Women's Rights are Human Rights	12-Dec-2005	1-Jan-2007	106,377.85 EUR	Completed
120	Working with disabled people in Cambodia	19-Sep-2000	1-Jan-2006	1,044,149.00 EUR	Completed

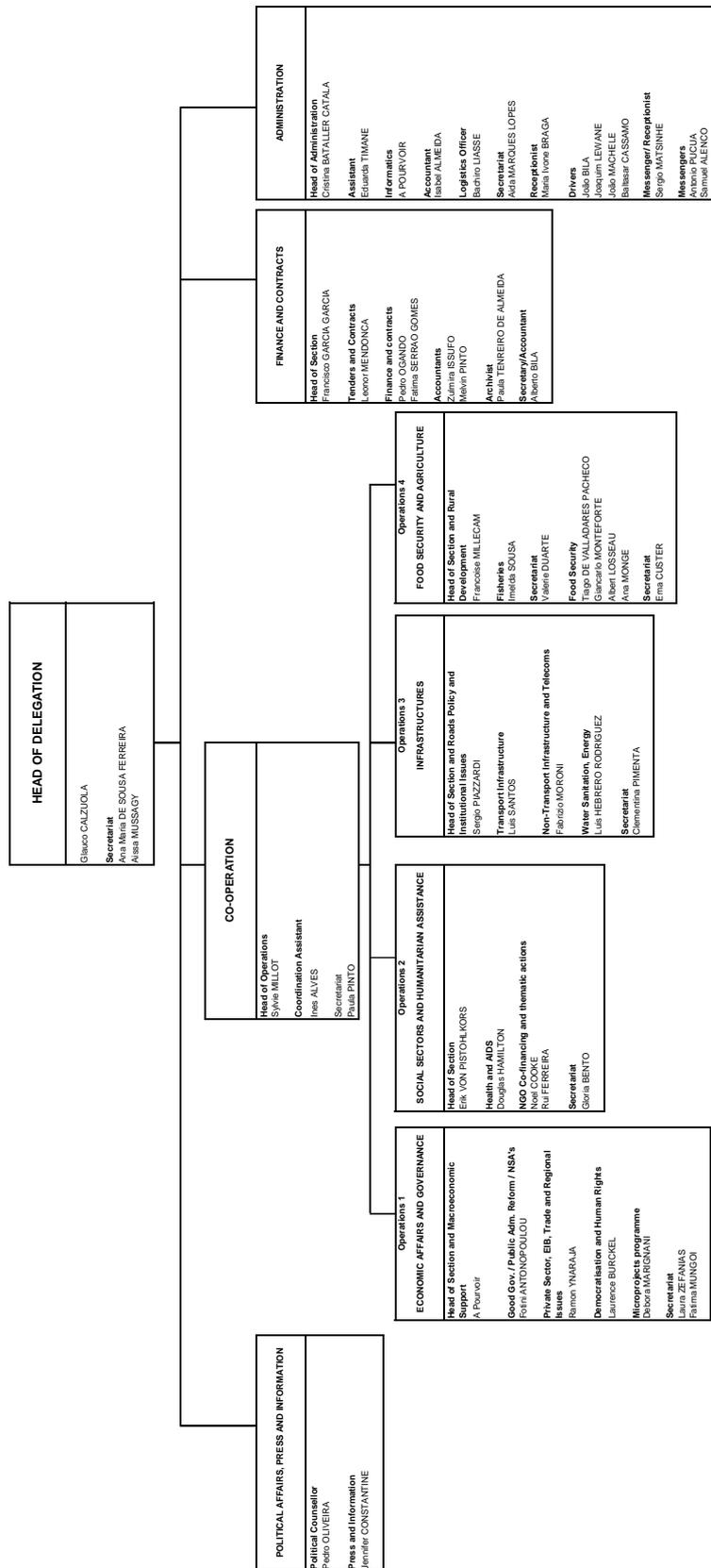
ANNEX 5

MOZAMBIQUE: LIST OF PEOPLE INTERVIEWED

#	Name	Position	Institution
1	Sylvie Millot	Head of Operations	DELMOZ
2	Claudio Salinas	Head of Economics and Governance	DELMOZ
3	Erik Von Pistohlkors	1st Secretary, Social Sectors and Hum. Assistance	DELMOZ
4	Esther Bouma	Health Coordinator	DELMOZ
5	Tiago de Valladares Pacheco	Food Security	DELMOZ
6	Francoise Millecam	Head of Agriculture and Food Security	DELMOZ
7	Debora Marignani	Economist	DELMOZ
8	Jolke Oppewaal	Economist	Dutch Embassy
9	Mette Masst	Minister Counsellor	Norwegian Embassy
10	Telma Loforte	Economist	SDC
11	Simon Vanden Borecke	Economist	DfID
12	Felix Fischer	Resident Representative	IMF
13	Bridget Walker	Economist	Irish Aid
14	Jean Risopoulos	Economist - Investment Centre Division	FAO
15	Carlos Castel-Branco	Professor of Economics & Consultant	UEM
16	Paulo Cuinica	Head	G20
17	Alexander Bohr	ODAMOZ Consultant	MPD - DIC
18	Alexandre Zandamela	Director	MINEC - NAO
19	Hanifa Ibraimo	Tecnica	MPD - DNP
20	Cristina Matusse	Head of Department	MPD - DNP
21	Caroline Ennis	Economist	MPD - DNP
22	Channing Arndt	Senior Economic Advisor	MPD - DNEAP
23	Elias Mangujo	Deputy National Director of Planning & Cooperation	MISAU - DNPC
24	Fernando Songane	PROAGRI Coordinator	MINAG - DE
25	Francisco Pereira	President	National Road Fund
26	Frederico Castelo Chipuale	Lawyer	National Road Fund
27	Lazaro Joao Moiane	Internal Auditor	National Road Fund

ANNEX 6

MOZAMBIQUE: DELMOZ ORGANOGRAM



Source: DELMOZ Website: http://www.delmoz.ec.europa.eu/en/excel_files/organigramme.xls.

ANNEX 7

MOZAMBIQUE: PAP'S PAF MATRIX 2006

European Union (EU) Performance Vis-à-vis the PAPs' PAF Matrix in 2006

Objectives	Activities	No	Indicators	Target	Executed	Points		
Portfolio Composition (25% of total points)	GBS	1	% of GBS in total PAPs aid flows disbursed to the GoM.	40%	36%	0		
	Program Aid	2	% of program aid in total PAPs aid disbursed to the GoM.	70%	55%	0		
Predictability (35% of total points)	Commitment of funds	3	% of PAPs with multi-year agreements of not less than 3 years.	Yes	Yes	4		
		4	Commitments of GBS for year n+1 within 4 weeks of the JR in year n	Yes	Yes	4		
	Disbursement	5	Disbursement of confirmed GBS commitment in the fiscal year for which it was scheduled, according to precise quarterly disbursement schedule agreed with GoM	Yes	Yes	6		
Harmonization and Alignment (35% of total points)	Consolidation and harmonization of conditionality	6	PAPs adhere strictly to GBS common conditionality.	Yes	Yes	2		
		7	(a) number of PAPs not having Annex 10 exceptions; (b) number of PAPs significantly reducing annex 10 exceptions with a view to eliminating such exceptions.	7(a) 13 7(b) 2	No exceptions	2		
		8	Strict harmonization between all new bilateral agreements and MoU	Yes	Waiting	-		
	Utilization of government systems and reporting	9	% of PAPs aid flows to the government reported to the budget	80%	To be confirmed	0/2 (?)		
		10	% of PAPs aid flows to the government included in the Treasury payment system	45%	47%	1		
		11	% of PAPs aid flows to government using public procurement systems	45%	47%	1		
		12	Implementation and evaluation reports required by the PAP from the government outside established normal government reporting systems are eliminated (excluding projects, which have their own reporting system; and audits).	No extra reports and audits	No	1		
		13	Significantly <i>reduce the overall number of missions</i> for evaluation and appraisal undertaken by officials of donor countries involving meetings with government officials, AND significantly increase the share of those missions that are joint.	No. of GBS missions outside JR & MYR < 7 No. of Non-GBS missions < 160 Share of joint missions: 20%	Non-GBS = 18 Joint = 5%	0		
		14	Analytical work at country level related to development, implementation and impact evaluation of government programs and policies AND involving government officials is undertaken jointly with other donors and in line with government priorities and strategies.	In line with GoM priorities: 80% Joint: 50%	6 studies, all joint	1		
		15	Donors agree and implement "quiet period" with GoM.	Respect "quiet period" agreed.	Yes	1		
		Total Points						23

ANNEX 8

PERU: LIST OF PEOPLE INTERVIEWED

Peruvian Agency for International Cooperation - APCI

Agustín Haya de la Torre
Executive Director

Roddy Rivas –Llosa M
Manager; Policy and Programs

Presidency of the Council of Ministers - PCM

Maria Lila Iwasaki
Secretary General
President of the Board - APCI

Ruth Jerónimo
Head - Cooperation, Planning & Budget

EU Delegation Perú

Ambassador Ignacio Sobrino
Head of Delegation

Karl Heinz-Voguel
Cooperation Attache

Ministry of Economy and Finance - MEF

Rafael Capristan
Director General of Multi-annual Programing (DGPM)

Ministry of Women and Social Development - MINDES

Victor Lora
Head of Advisory Group

Spanish Agency for International Cooperation AECI

Luis Puentes
Responsible of Gobernability Area

German Embassy

First Secretary, Christian Olk
Head of Cooperation

United Nations Development Program - UNDP

Luis Vargas Aybar
Coordinator Human Development

José Gonzáles –Vigil Alarcón
Program Manager

Defensoría del Pueblo

Silvia Esquivés
Cooperation Office

Aurora Rivas
Head, International Cooperation

World Bank

Jorge Luis Archimbaud
Senior Country Officer

EC-AIDCO

Luc Bagur
Head of Unit
Coordination and Organization Strategies

Mehta Currey
Europe Aid

ANNEX 9

**PRESENTATION TO THE COMMITTEE ON
DEVELOPMENT**

'A SNAPSHOT OF EC AID EFFECTIVENESS IN 2007'

odi
Overseas Development Institute

A snapshot of EC Aid Effectiveness in 2007

Presentation to Committee on Development, European Parliament, Brussels
16th, July 2007

Andrew Lawson & Alina Rocha Menocal

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Presentation Structure

1. Context and Objectives of the Study
2. Overview of Key Findings
3. Characteristics of the Case study Countries
4. Progress in Harmonisation & Alignment
5. Quality of the EC contributions
6. Common problems identified
7. Recommendations for the Committee on Development

2

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1. Context for the Study and Objectives

- Follow-up to the Report of Alain Hutchinson MEP and to the 3 Commission communications of April 2006
- Three key questions to explore:
 - Are the EC's policies and programmes consistent with the key elements of the Paris Declaration?
 - In what ways is the EC working with other EU member states to promote the principles of Ownership, Alignment and Harmonisation?
 - What lessons can be learnt from the experience of EC development assistance in different countries and contexts?
- Recent publication of OECD-DAC peer review of EC Development Cooperation provides point of comparison.

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2. Overview of Key Conclusions

- Overall, there appears to have been progress towards the Paris Declaration objectives & increased EC Aid effectiveness
- All EC staff and consultants interviewed showed strong awareness of PD objectives and considerable dedication to achieving them
- Nevertheless, progress has been slow & uneven with aid dependent countries leading and the lower middle income countries lagging
- A number of common problems emerge, several of which the CoD may be able to influence.

4

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3. Characteristics of the Case study countries: a)

	<i>CAMBODIA</i>	<i>MOZAMBIQUE</i>	<i>PERU</i>
<i>Country Type</i>	Fragile State	Aid Dependent	Lower Middle Income
<i>GNI per cap 2005</i>	\$ 380	\$ 310	\$ 2,610
<i>ODA as % GDP</i>	10 %	17 %	0.5 %
<i>EC as % ODA 2005</i>	3.8 % (\$20.3m)	8.4 % (\$162.6m)	10.6 % (\$42.2m)
<i>EU bilaterals as % ODA, 2005</i>	23.9 %	32.1%	39.3%
<i>No. EU bilaterals</i>	15	16	17

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3. Characteristics of the Case study countries: b) Governance ratings

World Bank governance indicators for Cambodia, Peru and Mozambique, 2005

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4. Progress in Harmonisation and Alignment in the 3 countries: a)

- ❑ **Mozambique** has made the most progress:
 - High volume of GBS and SBS
 - Several functioning common pool funds
 - Strong coordination structures, especially for GBS
 - Information on donor projects relatively good
 - BUT: Lack of Government leadership constrains progress
- ❑ **Peru** has seen least progress:
 - No clear national plan and responsibilities for aid coordination are divided.
 - Limited donor commitment to harmonization
 - Large number of off budget projects run by NGOs.
 - But some examples of coordination, eg Common Pool fund for Ombudsman

7

4. Progress in Harmonisation and Alignment in the 3 countries: b)

- ❑ **Cambodia** also showing progress, after a stalled start:
 - Strongest Government leadership of the 3 countries, with clear policy statements + coordinating structures.
 - Good sector coordination in Health and Education
 - Effective trust fund for PFM reform
 - Coordinated framework emerging for budget support
 - Yet still many projects overall and many off-budget projects, which are poorly documented.

8

5. Quality of EC Contributions a)

- ❑ In **Mozambique**, EC perceived as a leader in H & A efforts:
 - Took active role in promoting development of a joint assistance strategy across 19 agencies and NIP is closely aligned to GoM
 - Is a leading light within the GBS group (G-20), in funding of common pool for SISTAFE reform, also within ProAgri – the agriculture SWAp.
 - Has financed development of project data-base – ODAMOZ
- ❑ In **Cambodia**, EC has supported H & A but with less results:
 - Support to the Education SWAp most notable achievement.
 - NIP well aligned to RGC priorities but CSP was developed in isolation from other agencies and with limited consultation with RGC
 - EC continues to fund many poorly documented, NGO activities and too many projects overall
 - Roadmap for EU harmonisation prepared but precise role of EC unclear & role of Roadmap in relation to donor-wide harmonisation efforts also unclear

9

5. Quality of EC Contributions: b)

- ❑ In **Peru**, the EC has had a low key role:
 - Despite first meeting in April 2007, coordination across EU Member States not operational
 - EC active in five of 16 sector taskforces; and also provides support to the Government's aid coordination agency.
 - Yet EC has not pressed government to unify aid coordination processes
 - EC Country Strategy Paper not conceived as a joint exercise and involved only limited consultation.
 - Fundamental question of the right role for EC in Middle Income Countries such as Peru does not appear to have been addressed.

10

6. Common problems emerging: a) Overarching Issues

- ❑ Need for recipient **Government Leadership** over Policy Ownership, Alignment and Harmonisation:
 - In the absence of a clear (and acceptable) policy, alignment cannot progress – a major problem in Peru.
 - In the absence of effective institution building and systems development, government systems cannot be used.
 - These constraints must be clearly recognised, and perhaps CoD can engage in dialogue at political level to address them.
- ❑ There are **too many donor agencies**, with often inconsistent commitment to harmonisation:
 - This makes harmonisation a very time intensive process.
 - Attention must be given to preventing further proliferation of EU bilateral donors – both new Member States and regional bodies.

11

6. Common problems emerging: b) EC procedural and funding issues

- ❑ Significance of **Budget and Thematic lines**, not subject to country programming processes, (see OECD-DAC peer review):
 - In Cambodia = 1/3 of programme & 64 out of 76 projects;
 - In Mozambique = 38 % in 2005, declining to 25 % in 2007.
 - In Peru, about half of programme.
- ❑ Despite reforms, **financial management and contracting procedures still too complicated** & subject to centralised checks.
- ❑ Despite "deconcentration", **authority remains unnecessarily centralised**. (See also OECD-DAC peer review.)
- ❑ **Staff numbers and capabilities** not adequate to fully support H & A efforts and to permit a wider coordinating role over EU aid.
 - Options: narrower role; less Delegations so as to concentrate staff; more use of local staff for Admin roles; more exchange with EU Member States

12

How effective is EU aid on the ground?

A comparative assessment of EU assistance in Cambodia, Mozambique and Peru, and lessons learned

ANNEXES

September 2007

ODI

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ANNEX 1

QUANTITATIVE ANALYSIS OF EC AID

CASE STUDY SELECTION METHODOLOGY PAPER

Case Study Selection Methodology Paper

Prepared by ODI

(Lead author: Geoff Handley, CAPE)

**Document submitted as part of the EU Aid Effectiveness project
commissioned by the European Parliament's Committee on
Development**

3 April 2007

1. Introduction

As part of the study on EU aid effectiveness that the European Parliament's Committee on Development has commissioned from ODI, this paper sets out to identify a list of countries of particular interest as recipients of EU aid (both from the European Commission - EC - and from individual Member States) that may serve as case studies for the project.

The paper begins by providing a detailed description of the methodology that the ODI team has elaborated to make the selection of countries. Based on that methodology, we draw a long list of 60 countries that could potentially be used as case studies. These countries are divided into three different categories (each consisting of 20 countries) and presented in three different tables following the broad contexts in which EC aid operates. These contexts include:

- Fragile states
- Aid Dependent states
- Lower Middle Income states

From this long list of 60 countries, we then produce a short list of three countries that in our view are the best suited to serve as case studies for this project. To draw this short list, we rely on several criteria intended to allow us to identify the optimal case study candidates based on diversity, interest in terms of EU aid effectiveness, and resources at hand to carry out the case studies. More specifically, we rely on the following criteria:

- Geographic spread and diversity
- Countries not dominated by humanitarian assistance (following the mandate of the Committee to focus on development cooperation)
- Significance/presence of EU donors
- Practicality and feasibility of the case studies so as to maximise ODI's experience given limited resources and time

Based on these criteria, we have selected one country from each of the three categories/tables outlined above. Our recommended short list proposes the following countries as case studies:

- Cambodia (Fragile)
- Mozambique (Aid Dependent)
- Peru (Lower Middle Income)

In our view, the combination of these three countries offers tremendous potential to analyse experiences with EC/EU Members aid and to draw lessons based on those experiences to make aid more effective. We look forward to your feedback.

2. Data Overview

In line with the Project Document, a database has been compiled comprising the following information for states receiving aid from the EC:

- **GDP/Capita:** A series of data compiled from World Bank's World Development Indicators (WDI) for the period 1965 – 2005.
- **Progress Towards the MDGs:** Data on progress towards MDGs compiled from the official United Nations database for the period 1990 - 2004 (though there are many gaps in the available data).
- **Size of EU Development Programme:** Data from OECD Development Assistance Committee (DAC) database on EC and EU member states' aid disbursements to all recipients for 1960 – 2005 (EC) and 2005 (all EU bilateral donors).
- **Number of EU Bilateral Donors:** The disbursements data (OECD DAC) gives an indication of how many EU member states were active in a given country in 2005.

In addition, the database also provides information regarding:

- **Fragile States:** List of all countries classified as LICUS in the last four years.
- **HIPC Status:** Those Low Income countries at pre-decision, decision and completion point on the Highly Indebted Poor Countries (HIPC) programme are listed.
- **Governance indicators:** The World Bank's Governance and Corruption indicators are also included in the database (these are made up of six measures: (i) voice and accountability; (ii) political stability, (iii) government effectiveness; (iv) regulatory quality; (v) rule of law, and; (vi) control of corruption).

Availability of Recent Evaluations of Aid Effectiveness: Finally, the information collected in the database has been complemented by the collation of available EC internal country reviews, independent external CSP evaluations, ECHO country evaluation reports, and "Three Cs" (coordination, complementarity and coherence) evaluations undertaken by EC member states' evaluation centres. This information has not been used to inform the analysis below, but will instead be drawn upon once the final three case study countries have been agreed upon.

3. Data Analysis

This section uses the data collected to analyse EC aid along a number of dimensions: (i) an overview of EC and EU aid flows; EC and EU aid flows by (ii) geographic distribution; (iii) weight of recipient country population; (iv) recipient income bracket; (v) recipient conflict status; (vi) recipient governance measures, and; (vii) humanitarian assistance. Each dimension is treated in turn, though beforehand it is worthwhile noting some of the constraints with the data and approach used herein.

a. A Note on the Data and Cross-Country Approach

Before proceeding it is worth noting that there are a number of limitations with the data and more generally with this aggregate cross-country type of analysis. As regards data, while more specific concerns will be flagged up in their respective sections (see

especially the caveats regarding the governance indicators), there are also general issues, in particular regarding the OECD DAC database on aid. This valuable source has been relied upon heavily in the analysis as it provides a comprehensive and comparable source of data on aid flows. However, the figures cited may differ from those cited in official EC documentation (such as the EU Donor Atlas). In addition, the way data is drawn from the database (for example the total aid disbursement figures cited here refer to aid spent in “developing countries”) may mean that OECD DAC data is presented differently in other sources. Finally, financial figures are presented in current US\$ terms. Much of the data should therefore be regarded as indicative of levels and trends rather than as a precise capture of aid flows.

We refer to “EC” development assistance (or aid) throughout, making no distinction between the spending of the different Directorates General for development within the EC.

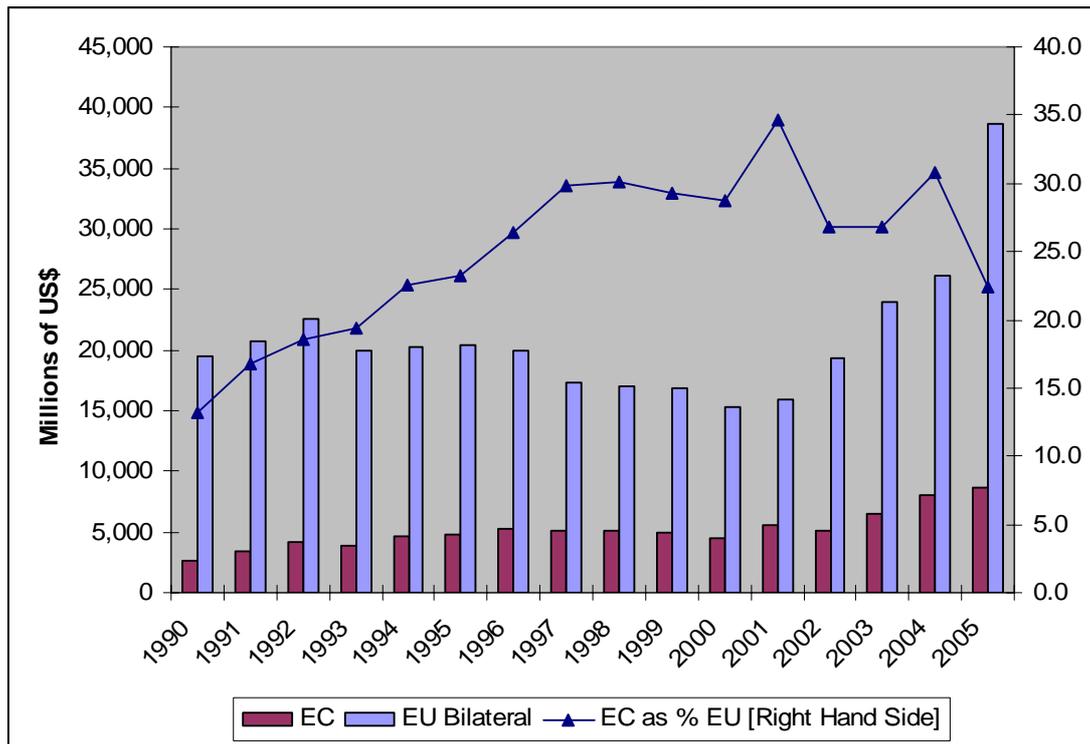
Because the focus of the commissioned project is intended to be EC development cooperation, we present data on *total* EC aid disbursements for 2005 (which includes what the OECD DAC classifies as “emergency”, or humanitarian) aid), as well as EC aid disbursements *net of humanitarian aid* (see section h below).

As regards the aggregate cross-country approach, this is clearly necessary in order to ascertain how EC and EU member states are distributing their aid around the world and can serve to illustrate key global trends. However, it cannot substitute for detailed country-specific analytical work, particularly when it comes to unpacking the complex chains of cause and effect behind much of the data (for example the complex interaction between aid, growth and governance). Rather, it serves to flag issues for more detailed investigation in later phases of the study.

b. Total European Aid to Developing Countries

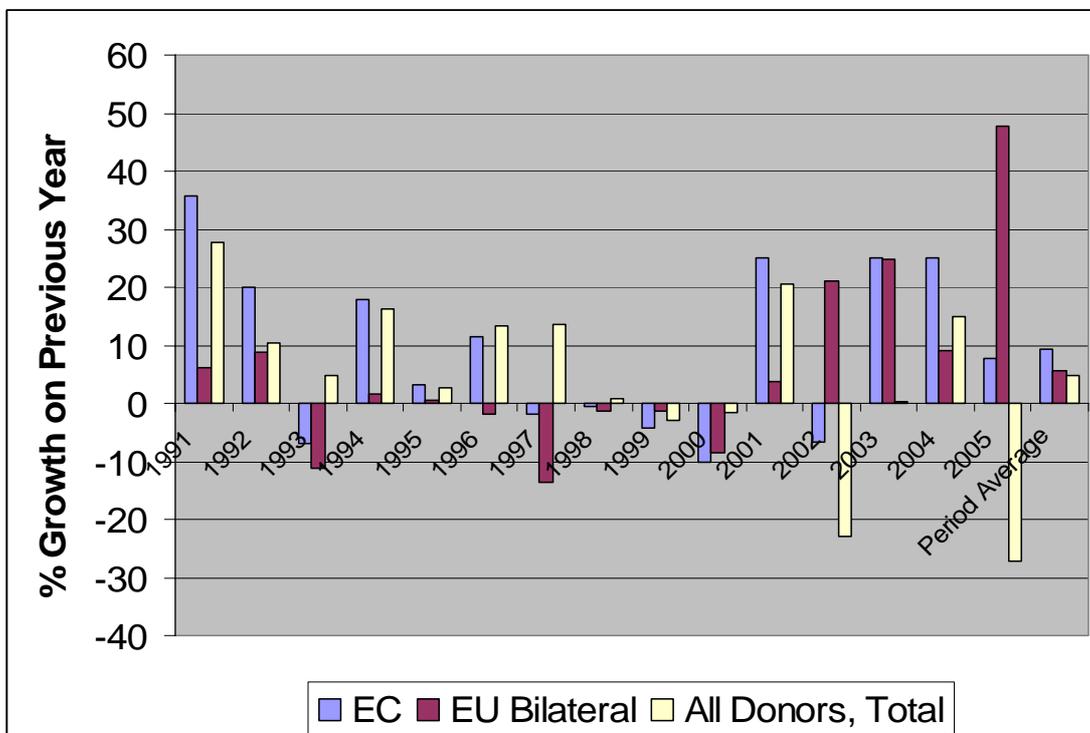
A review of total aggregate aid disbursements by the EC and by EU member states over the period 1990 – 2005 reveals that both have risen sharply in recent years (see Figure 1), with total disbursements in developing countries in 2005 totalling \$8.7 billion. This represents around 22% of total aid disbursed by EU member states in that year.

Figure 1: Total EC and EU Bilateral Aid to Developing Countries, 1990 – 2005



Source: OECD DAC database.

Figure 2: Annual Growth in EC and EU Bilateral Aid to Developing Countries, 1990 – 2005



Source: OECD DAC database.

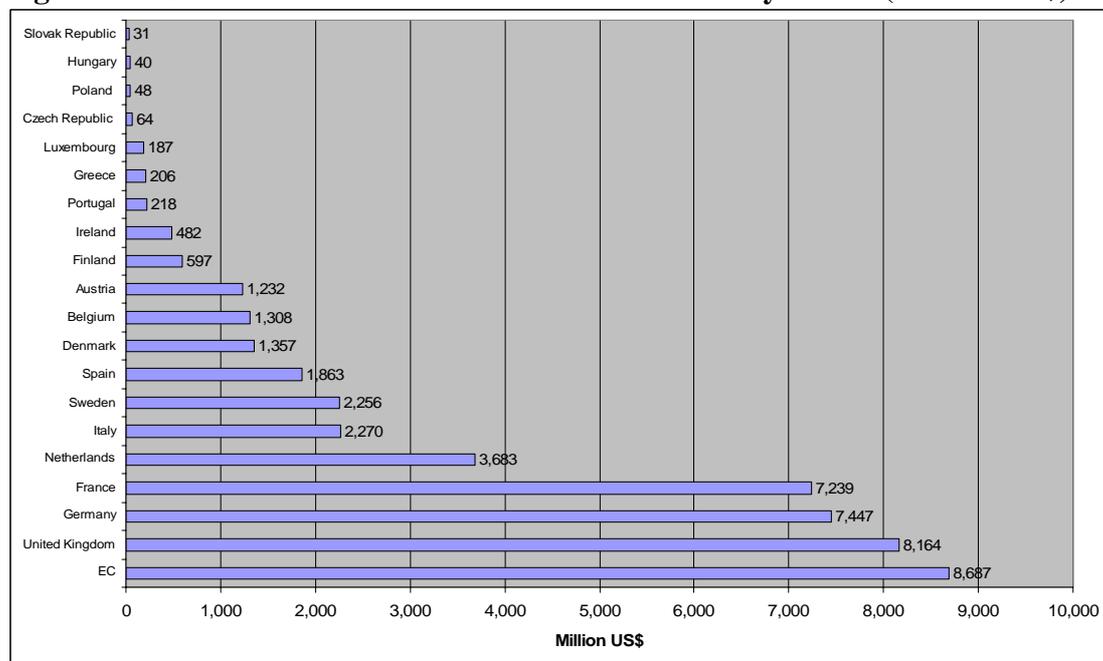
Over the period, EC aid grew in proportion to total EU aid until reaching a peak of 35% in 2002. Subsequently, although EC aid disbursements have continued to grow

year-on-year, the rapid acceleration of bilateral disbursements by member states has meant that the EC's relative share of European aid has fallen away from its 2002 peak. The recent rapid acceleration in member states disbursements also serves to underline the importance of the EC's aid coordination role, aside from its more directly targeted development activities.

Figure 2 further illustrates the faster growth of EC aid in relation to both EU member states' bilateral disbursements as well as the international development community as a whole, with average annual growth rates over the period of 9.3%, 5.7% and 4.7% respectively. It is noteworthy that disbursements from all sources declined in the late 1990s and early 2000s, the last five years the respective growth rates have been very high in Europe compared to the donor community as a whole: 15.3% (EC), 21.2% (EU member states), -2.9 (all donors).

Focusing on 2005, Figure 3 provides a break down of European aid disbursements by EU member state (and including the EC). The EC has emerged in recent years as the single largest European aid agency by disbursement volume (having overtaken Germany in 1994 and France in 1997), followed by the UK, France, Germany and the Netherlands. However, as Figure 4 illustrates, when these figures are expressed as a proportion of member states' GNI, the rankings change dramatically, with smaller economies that have a larger proportionate commitment to aid rising to the top (i.e. Luxemburg, Sweden, the Netherlands and Denmark all top 0.5% of GNI). As the Hutchinson Report notes (Hutchinson, 2006; para. 17) a number of countries have a long way to go if they are to reach the PDA target of 0.56% of aid in GNI by 2010 and 0.7% by 2015.¹

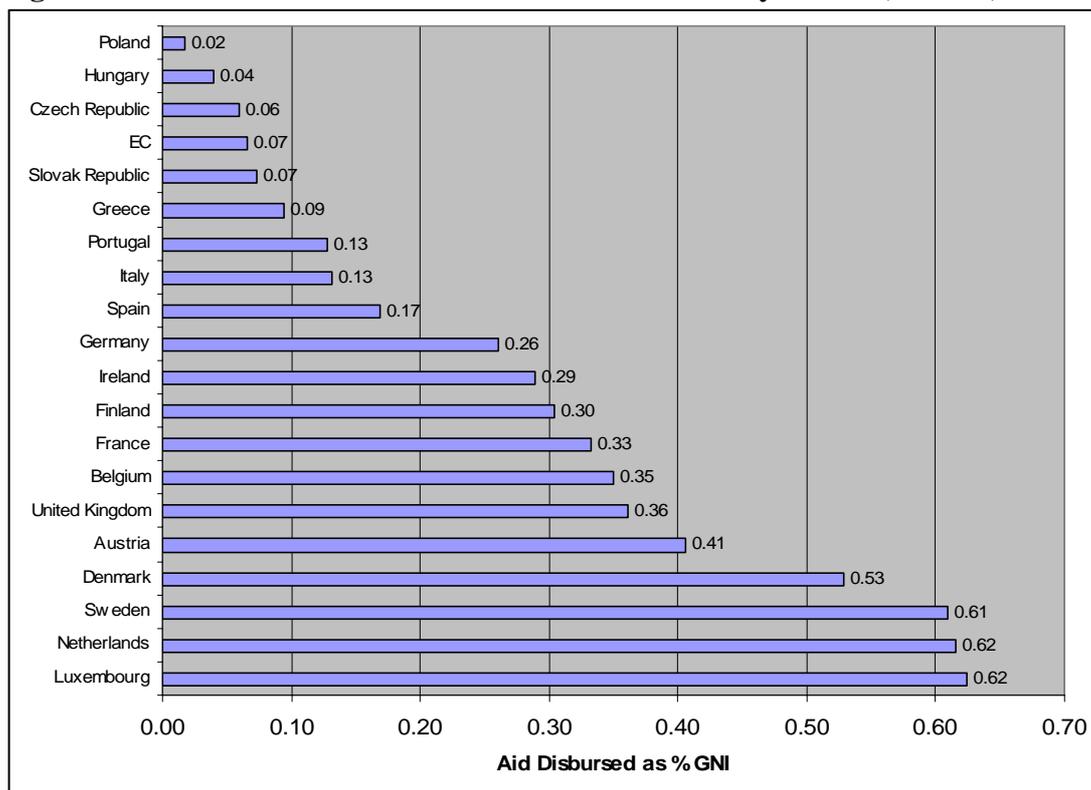
Figure 3: EC and EU Aid Volumes Disbursed in 2005 by Donor (Million US\$)



Source: OECD DAC database.

¹ "On more and better cooperation: the 2006 EU aid effectiveness package" 2006/2208(INI) Committee on Development. Rapporteur: Alain Hutchinson.

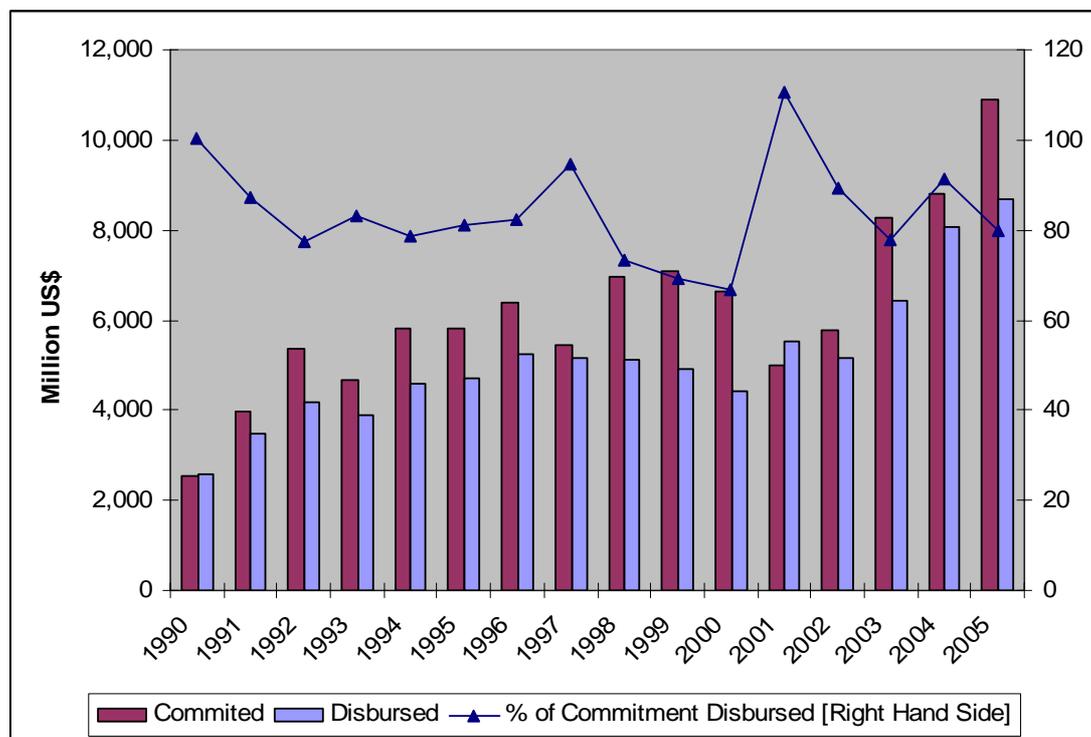
Figure 4: EC and EU Aid Volumes Disbursed in 2005 by Donor (% GNI)



Note: EC figure (0.07%) calculated by dividing EC multilateral aid by EU member states GNI. All EU aid (i.e. EC plus bilateral disbursements) makes up 0.36% of EU GNI.

Source: OECD DAC database and World Bank.

Figure 5: EC Aid Commitments and Disbursements for Developing Countries, 1990 – 2005



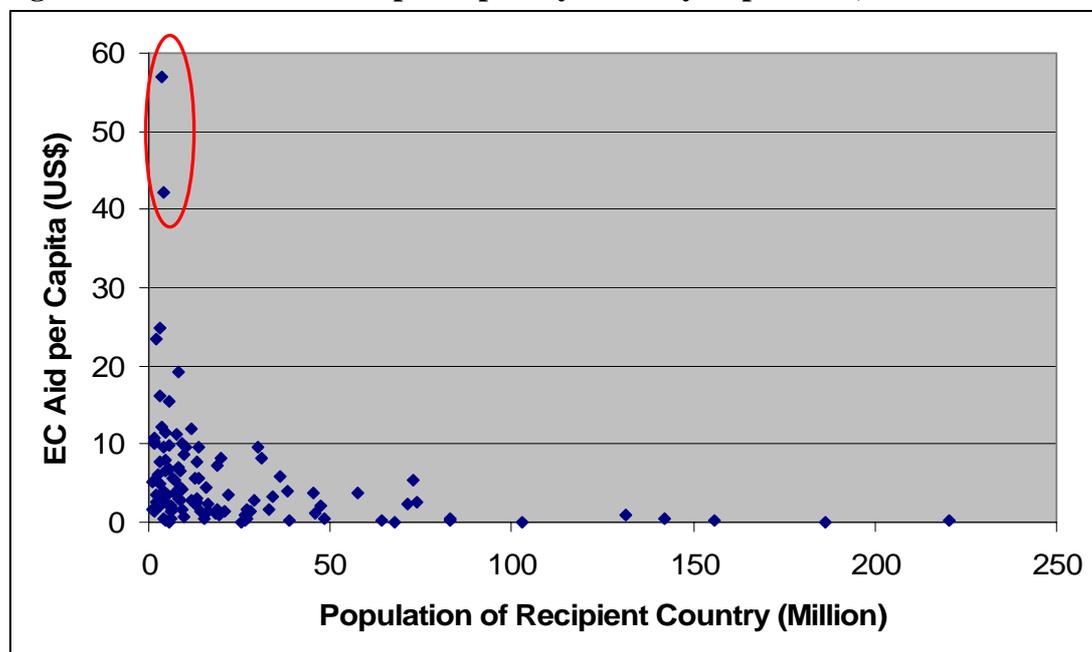
Source: OECD DAC database.

A central feature of the aid effectiveness debate in recent years has been donors' ability to deliver on aid commitments in a consistent and predictable manner. This is consistently cited by recipients as a major concern, as inconsistent disbursement undermines planning, budgeting and the degree of genuine budgetary oversight by recipient parliaments. The EC's record in recent years at an aggregate level has been mixed, as is illustrated in Figure 5, which shows that disbursement rates have fluctuated from 67% to 111% and averaged 84% between 1990 and 2005. Undue emphasis on disbursement rates and the associated pressure to disburse aid come what may has been criticised by many observers for generating perverse incentives within aid agencies (see e.g. Ostrom et al., 2005) and certain aspects of EC policy explicitly reserve the right to withhold disbursements (e.g. the "variable tranche" of EC General Budget Support).² However, this clearly illustrates an area that merits further investigation in later phases of the study.

c. EC Aid by Recipient Population

An examination of per capita EC aid disbursements reveals that the vast majority of recipients received less than \$20 per capita in 2005, with an average value of \$5.4 per capita (see Figure 6). The countries included in these calculations were restricted to those with populations of over 1 million people as these states typically have relatively high per capita aid levels reflecting the fixed costs of running a country office. It is worth highlighting two outliers (circled in Figure 6) in the per capita aid figures for 2005: the West Bank and Gaza and Bosnia and Herzegovina, which have very high relative per capita aid figures of \$57 and \$42 respectively.³

Figure 6: EC Aid Disbursed per capita by Country Population, 2005



² "The Samaritan's Dilemma: The Political Economy of Development Aid." Gibson, Andersson, Ostrom & Shivakumar. Oxford University Press. 2005.

³ OECD DAC refer to West Bank and Gaza as "Palestinian Administrated Areas". Here we follow the World Bank convention of "West Bank and Gaza". The choice is purely arbitrary.

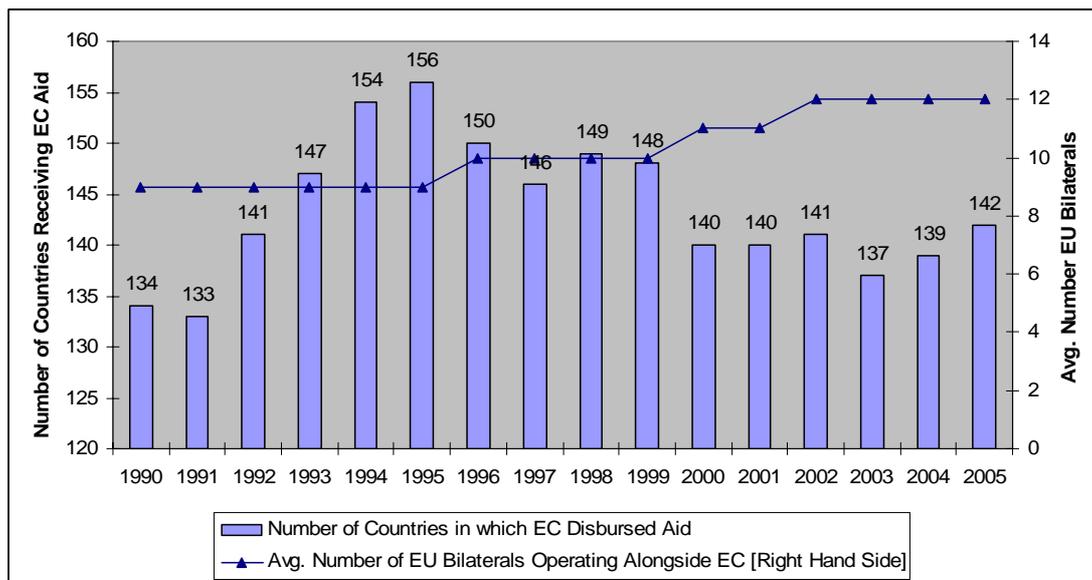
Note: Countries with populations of below 1 million excluded. China (1.3 billion people) and India (1.1 billion people) were also excluded from the sample for presentational purposes (they received \$0.05 and \$0.17 per capita from the EC in 2005 respectively).
 Source: OECD DAC database and World Bank.

d. EC Aid by Geographic Distribution

The number of countries in which the EC actively disbursed aid between 1990 – 2005 ranged from a high of 156 in 1995 to a low of 133 in 1991 and stood at 142, with an average spend of \$61 million per country, by 2005. Added to this, the EC has had to operate alongside a steadily growing number of EU bilateral donors (in spite of being spread less thinly than in the mid-1990s), dealing with an average of 12 other EU aid agencies in each country in which it operated in 2005 (see Figure 7).

The latest available figures for the numbers of personnel working in-country indicate that in 2004 the EC employed 559 expatriates in the field, 2,021 local staff and including headquarters staff (959) employed a total of 3,539 staff (second only to Germany with 6,550 staff).⁴

Figure 7: Number of Recipient Countries in which the EC Disbursed Aid, 1990 - 2005



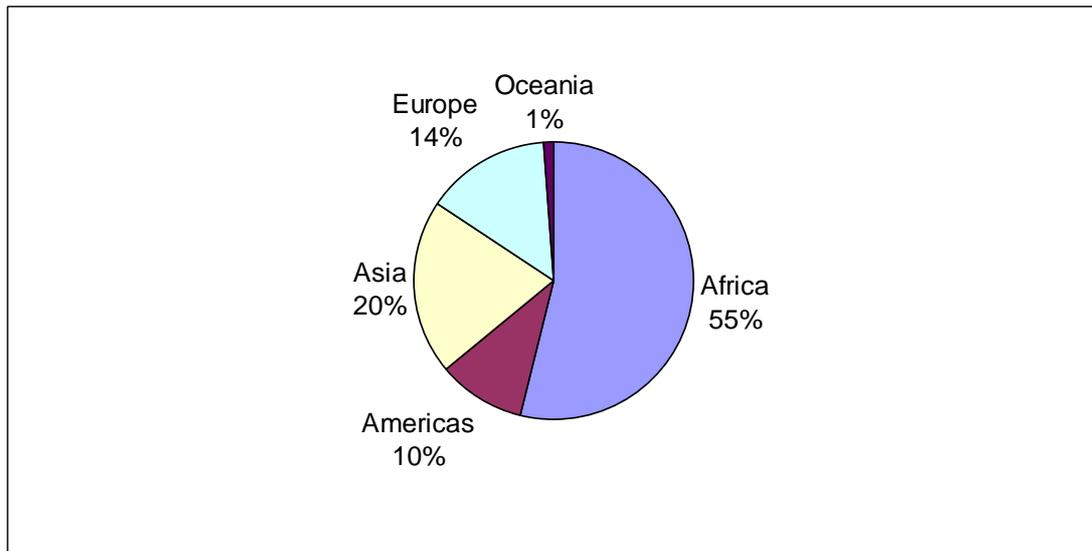
Note: Figures refer to countries recorded by OECD DAC as disbursing aid. Therefore, totals do not necessarily tally exactly with numbers of country offices.

Source: OECD DAC database.

Looking at EC spending over 1990 – 2005 by continent (Figure 8), it is apparent that Africa has received the majority of aid (55%), followed by Asia (20%) and Europe (14%). Breaking the data down on a regional basis (Figure 9) shows that Sub-Saharan Africa (SSA) has been the principal recipient of EC aid with 45%.

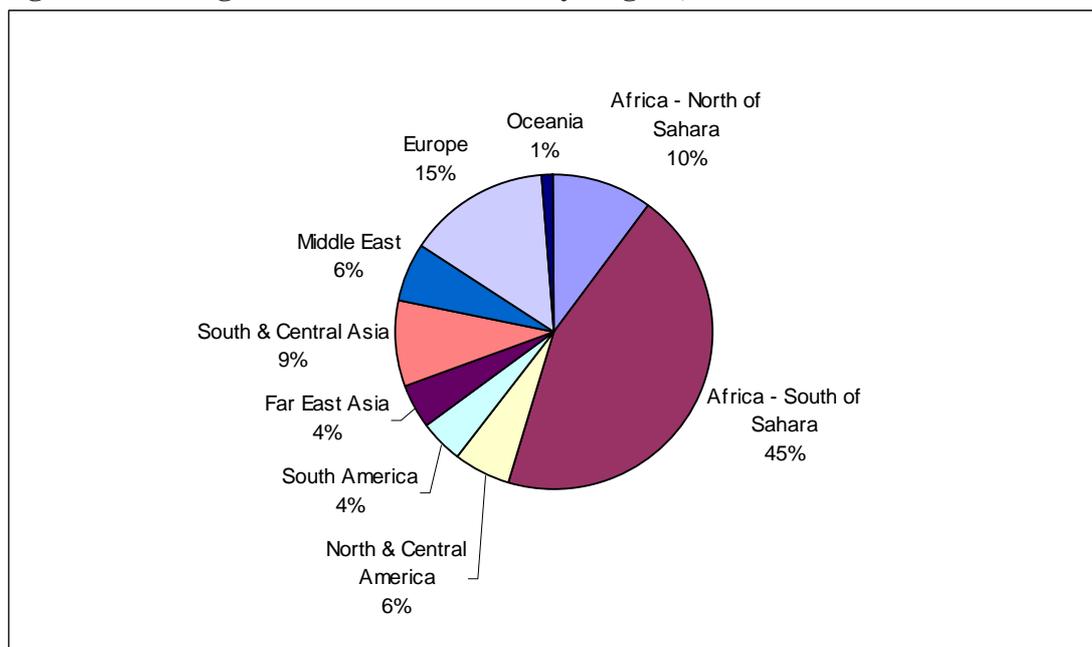
⁴ EU Donor Atlas 2006 Volume I. Mapping Official Development Assistance. February 2006. Prepared by Development Strategies for the EC and OECD.

Figure 8: Average EC Aid Distribution by Continent, 1990 – 2005



Source: OECD DAC database.

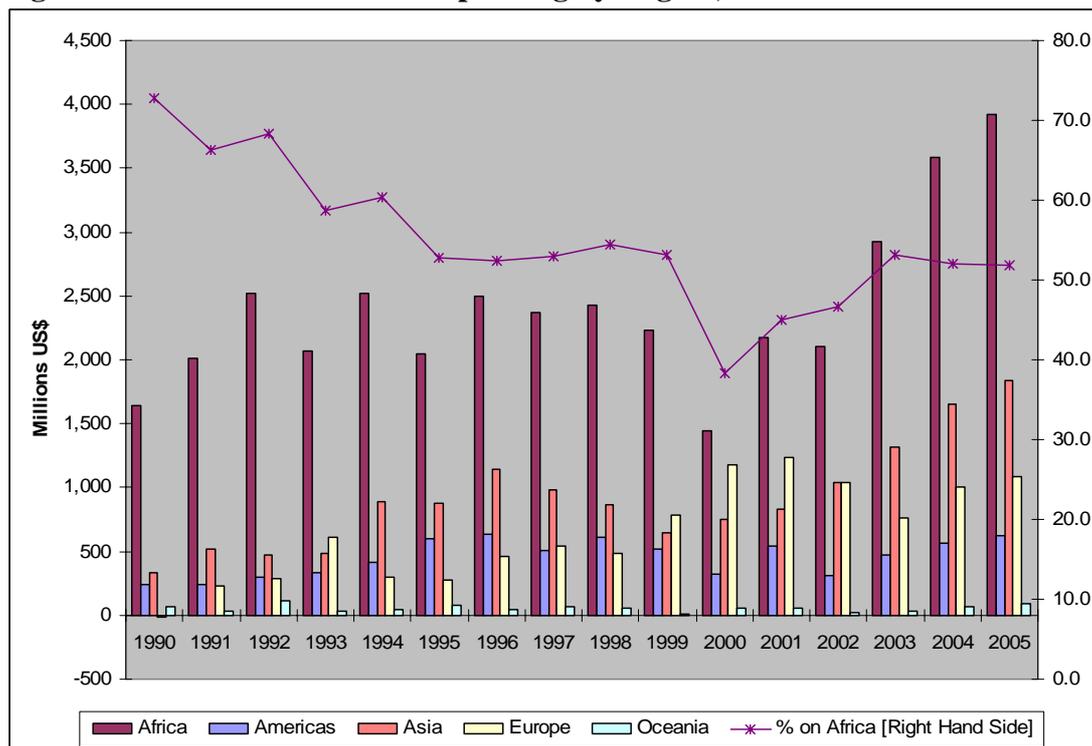
Figure 9: Average EC Aid Distribution by Region, 1990 – 2005



Source: OECD DAC database.

However, looking at period averages masks some interesting annual trends that are illustrated in Figure 10. In particular, while Africa is clearly the main recipient of EC aid, its total share of EC disbursements has fallen from a high of 73% in 1990 to 52% in 2005. This is largely because, although aid to Africa has grown rapidly of late (at an average of 17% per year over the last four years), EC aid to Asia (22% p.a. over the same period) and Oceania (29% p.a.) has grown even faster.

Figure 10: Evolution of EC Aid Spending by Region, 1990 - 2005



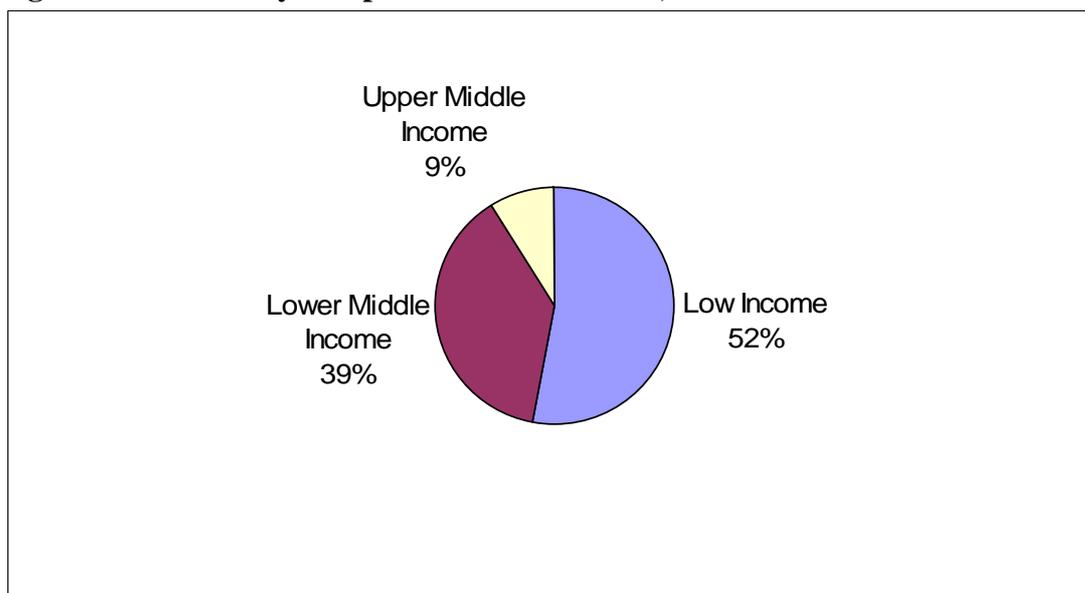
Source: OECD DAC database.

e. EC Aid by Recipient Income Bracket

The World Bank divides countries into three broad income brackets: Low Income, Middle Income (comprising the subcategories of Lower Middle and Upper Middle), and High Income. Countries are allocated into one of these categories according to Gross National Income (GNI) per capita in 2005. The thresholds for the respective groups are at present: low income, \$875 or less; lower middle income, \$876–3,465; upper middle income, \$3,466–10,725; and high income, \$10,726 or more.

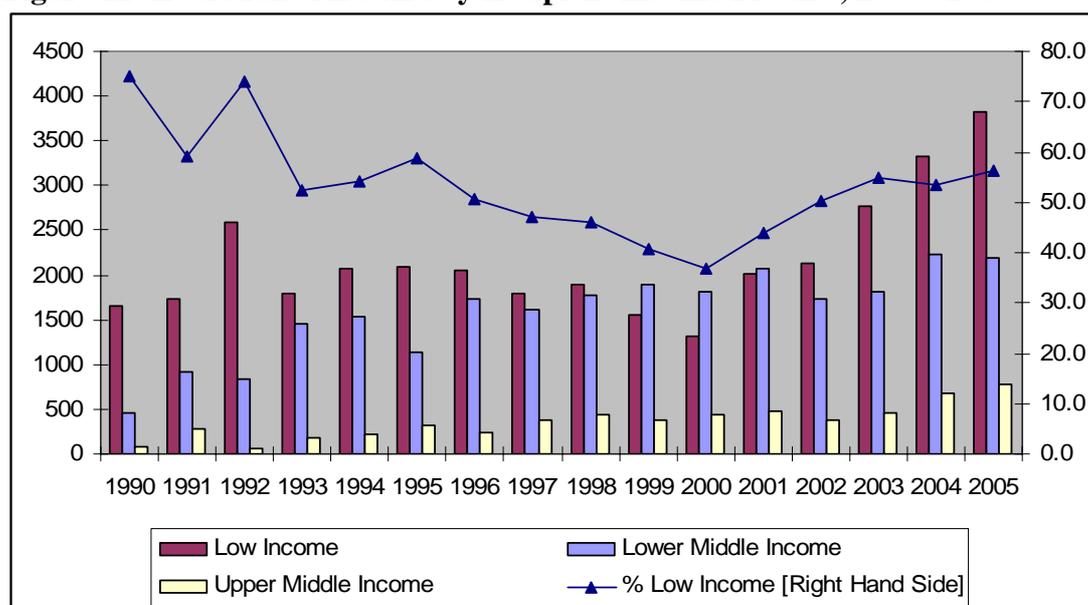
Using this categorisation we can examine how EC development assistance has been apportioned amongst countries by income bracket over 1990 - 2005. This will give some indicative guidance as to how well targeted EC aid has been towards the poorest *countries*, although since China is a lower middle income country it will be an imprecise guide as to whether EC aid is reaching the poorest *populations*. As Figure 11 illustrates, low income countries received around 52% of aid over the period, while lower middle and upper middle received 39% and 9% respectively. Looking at trends in apportionment over time (Figure 12) reveals that the share of EC aid going to low income states has fluctuated during the last 15 years, declining from a high of 75% in 1990 to a low of 37% in 2000 and steadily recovering to 56% in 2005. This is to a large extent mirroring the trends in regional resource allocation, since 26 of the 41 low income countries are in SSA and 10 are in Asia.

Figure 11: EC Aid by Recipient Income Bracket, 1990 - 2005



Source: OECD DAC database and World Bank.

Figure 12: Evolution of EC Aid by Recipient Income Bracket, 1990 - 2005



Source: OECD DAC database and World Bank.

f. EC Aid by Recipient Conflict Status

In recent years increasing attention has been paid to a category of countries termed “fragile states” (formerly described by the World Bank as Low Income Countries Under Stress or LICUS) – i.e. those that are in the midst of or recovering from all-out or low-level warfare. Fragile states are divided into three sub-categories: core, severe and marginal, depending on the income level and CPIA rating.⁵ Fragile states classified as "severe" have an overall and governance CPIA of 2.5 or less; those

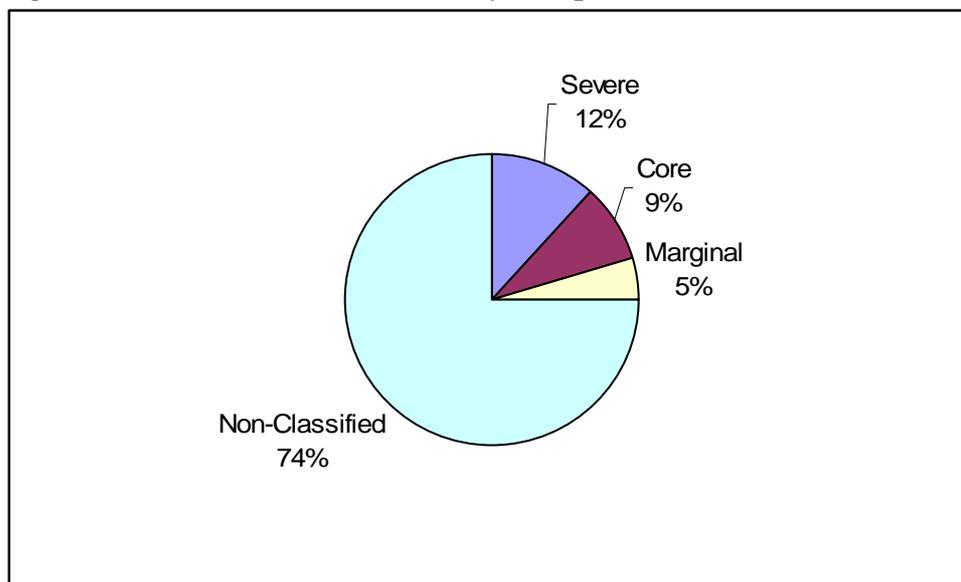
⁵ CPIA stands for Country Policy and Institutional Assessment and is a composite indicator of a number of measures of country institutions over four broad areas: economic management, structural policies, policies for social inclusion and public sector management.

classified as "core" have an overall and governance CPIA of 2.6–3.0); and those classified as "marginal" have an overall and governance CPIA of 3.2.

These states typically have very low per capita incomes and exceptionally weak state institutions, requiring a different set of aid interventions than other, non-conflict affected states. Such states also have negative spill over effects both regionally and globally (particularly with regard to security) which have added to their profile within the aid industry.

EC aid in 2005 went predominantly to non conflict-affected or “non-classified” countries (see Figure 13), with “severely” conflict affected receiving 12%, “core” receiving 9% and “marginal” receiving 5%. It is worth bearing in mind however that the criteria for classification as a “fragile state” result both in some surprising exclusions (e.g. Iraq) and inclusions (e.g. Nigeria). One should therefore be careful in examining the specific countries within each category (see database for a full listing).

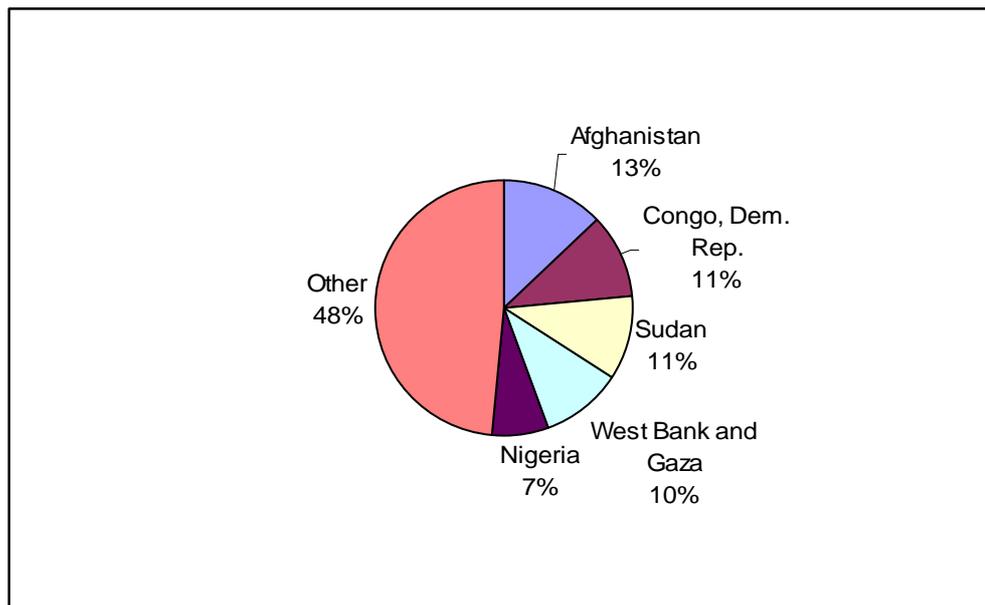
Figure 13: Distribution of EC Aid by Recipient Conflict Classification for 2005



Source: OECD DAC database and World Bank.

Following a more country specific line of analysis, Figure 14 lists the top five fragile states by EC aid disbursements in 2005, revealing that Afghanistan received the largest single share of aid to fragile states (13%), followed by DRC (11%), Sudan (11%), West Bank and Gaza (10%) and Nigeria (7%).

Figure 14: Largest Fragile State EC Aid Recipients in 2005, as % of Total Aid to Fragile States



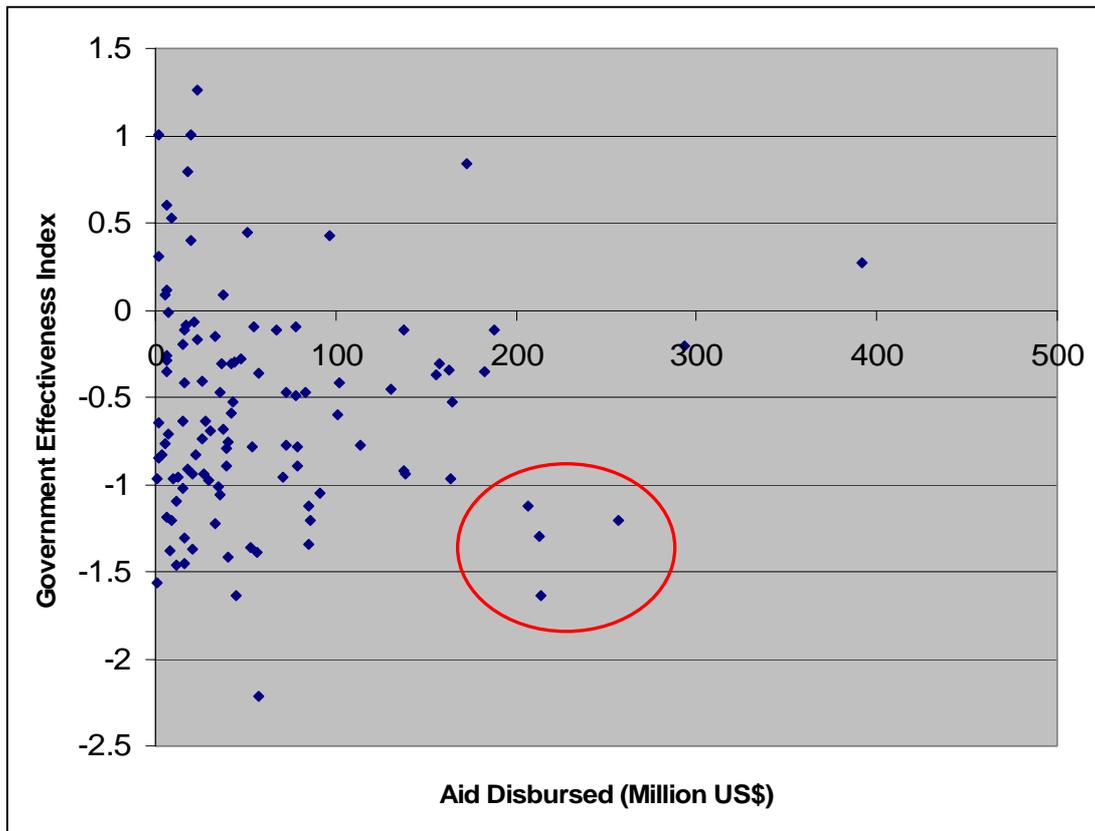
Source: OECD DAC database and World Bank.

g. EC Aid by Recipient Governance Rating

A growing, if controversial, body of evidence cites the central importance of a country's governance institutions in the efficacy of aid (see e.g. Kaufmann et al., 2004).⁶ Figures 15, 16 and 17 plot net EC aid disbursement per country in 2005 against World Bank indices of Government Effectiveness, Rule of Law and Control of Corruption. These indices should be treated with caution for three principal reasons: (i) the mere act of trying to express a concept as complex as "governance quality" in a few indicators necessarily sacrifices a lot of valuable information; (ii) the standard errors associated with the indices are quite high, and; (iii) many of the indicators for many countries are supported by as little as one source document. However, taken as a whole they give an overall indication of the distribution of EC aid spending over country governance profiles. As the figures illustrate, the vast majority of countries in which the EC operates have low scores on these indices, with a number of outliers that are of particular cause for concern (i.e. those countries circled in red) because of the congruence of poor governance measures and large volumes of aid. The four outliers identified against each of the three indicators are Afghanistan, DRC, West Bank and Gaza and Sudan (although West Bank and Gaza does not stand out as markedly on the Rule of Law Index), all of which received over \$200 million in aid in 2005.

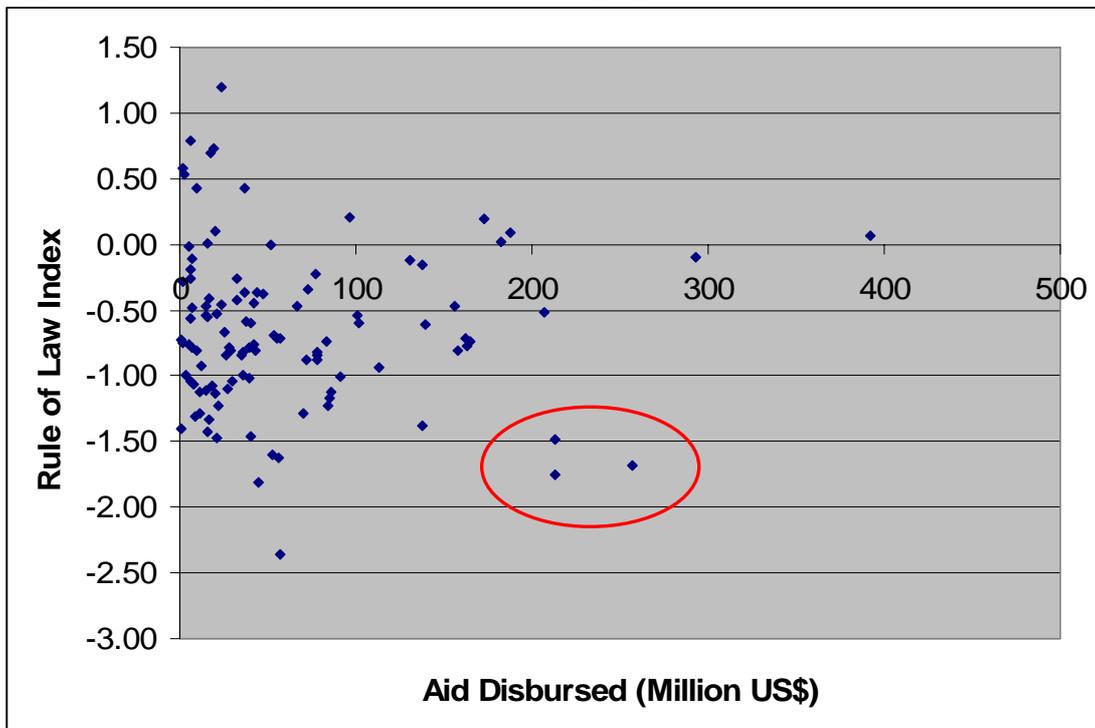
⁶ Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi. 2004. "Governance Matters III: Governance Indicators for 1996, 1998, 2000, and 2002." World Bank Economic Review 18: 253–287.

Figure 15: EC Aid (Total Disbursed in 2005) by Recipient Country Government Effectiveness Index



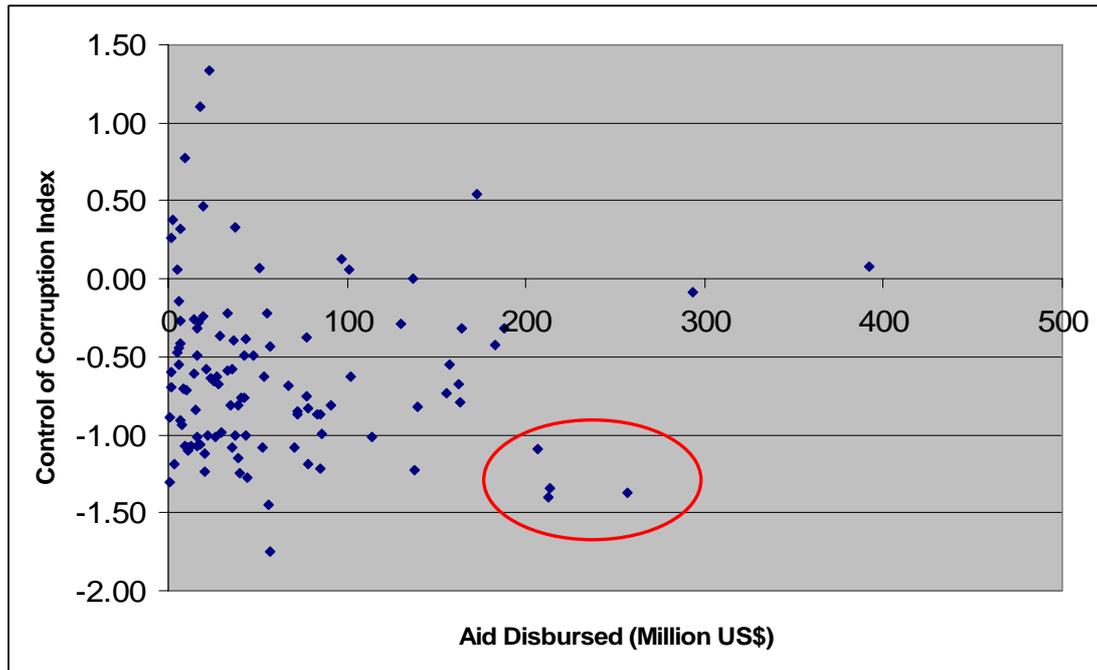
Source: OECD DAC database and World Bank.

Figure 16: EC Aid (Total Disbursed in 2005) by Rule of Law Index



Source: OECD DAC database and World Bank.

Figure 17: EC Aid (Total Disbursed in 2005) by Control of Corruption Index

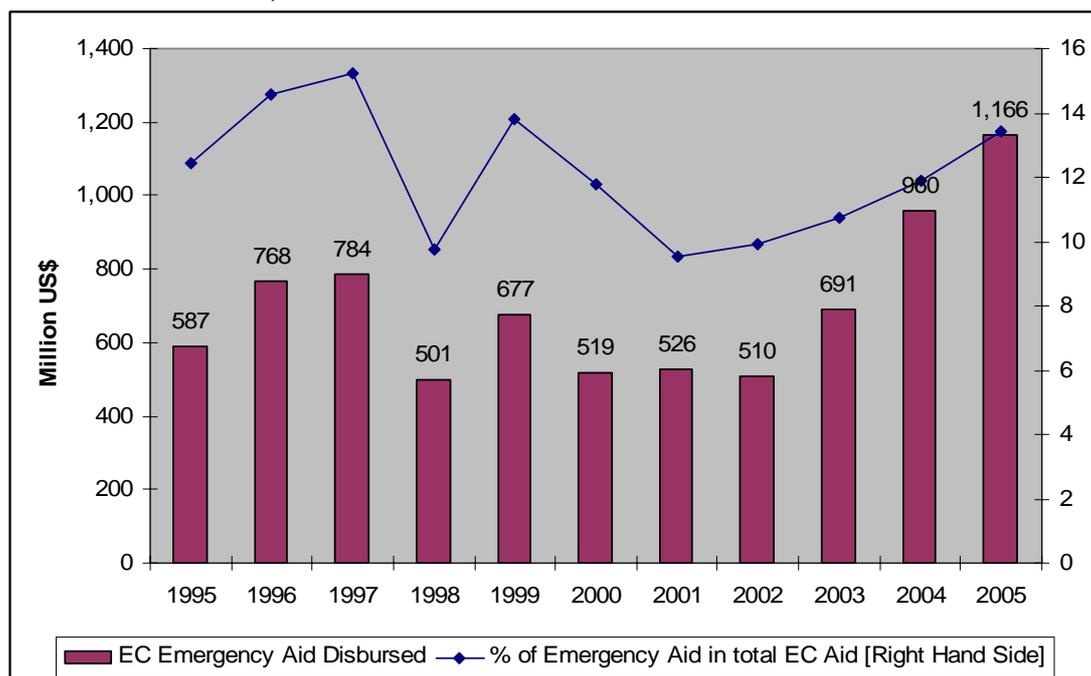


Source: OECD DAC database and World Bank.

h. EC Emergency or Humanitarian Assistance

Figure 18 shows both the overall volumes of EC emergency or humanitarian aid spending over the period 1995 – 2005 (OECD DAC only began collecting this data in 1995) and the proportion of humanitarian aid in total EC aid disbursements. While humanitarian spending fluctuated both in absolute and proportionate terms throughout the 1990s, it has grown steadily since 2001, reaching \$1.2 billion or 14% of total aid flows in 2005.

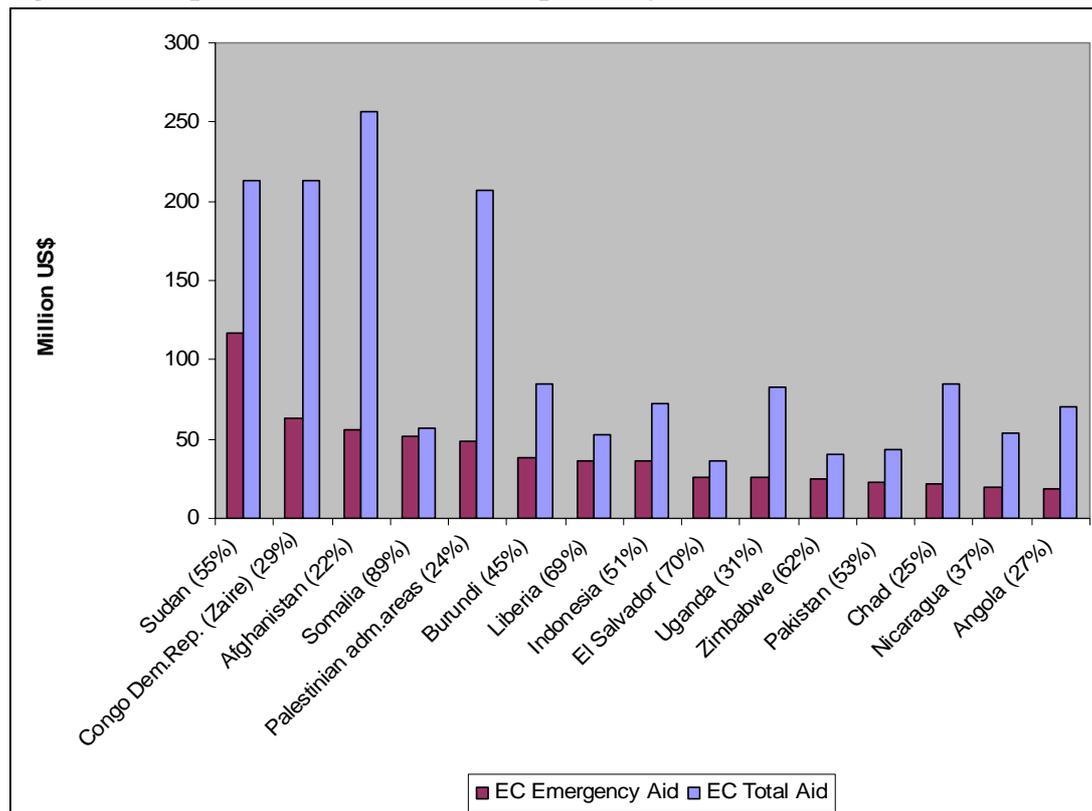
Figure 18: Total EC Humanitarian Aid Disbursed, 1995 – 2005 (in Both Absolute and Relative Terms)



Source: OECD DAC database.

While 14% may seem like a relatively small proportion of overall development assistance, it should be borne in mind that the nature of emergencies typically means that humanitarian assistance is concentrated in particular states. Thus in 2005, 55% of the \$213 million of EC aid spent in Sudan was humanitarian. Figure 19 summarises the top recipients of humanitarian aid.

Figure 19: Top Humanitarian Aid Recipients by Volume, 2005



Note: EC humanitarian aid is expressed as a percentage of total EC aid in brackets beside the country name.

Source: OECD DAC database.

It is essential to emphasise, however, that the focus of this project is on development cooperation. Because humanitarian aid is delivered in a distinctive manner and in complex country contexts, and there are difficult and controversial questions regarding whether indeed such assistance should be aligned with recipient government priorities (e.g. the case of Sudan), *we net out EC humanitarian assistance in deciding upon the final categorisation of countries.*

4. Country Categorisations

Having presented and analysed the data in the section above, we are now faced with the challenge of sorting through this rich dataset so as to select a long list of potential case studies (comprising countries from Africa, Asia and Latin America in line with the Terms of Reference), and then narrow the list down to a set of three final country case studies.

We begin by presenting a categorisation which divides countries into three groups, illustrating the three broad contexts in which the EC operates:

- **Fragile:** countries selected on the basis of having had “fragile state” (formerly LICUS) status (severe, core or marginal) in one of the last four years;
- **Aid Dependent:** countries selected on the basis of low income status (based on GNI per capita in 2005) with no fragile/LICUS status in last four years *and* total aid receipts (from all donors) in 2005 greater than 2% of GDP, and;

- **Lower Middle Income (LMI):** countries selected on the basis of lower middle income status (based on GNI per capita in 2005) and no “fragile state” (formerly LICUS) status (severe, core or marginal) in last four years.

The three categorisations, once applied to the cross-country database, produce lists containing 38, 20 and 50 countries respectively. Tables 1, 2 and 3 below present the top 20 countries for each category in fulfilment of the Terms of Reference. Section 5 then singles out a set of three countries (one each per category) that we recommend to use as the case studies for this project, with associated justifications.

Table 1: Top 20 Fragile States

#	COUNTRY_NAME	Region	LICUS Classification on 2005	LICUS Classification on 2006	Income Group	GNI/CAP_2005	Number of EU Bilaterals	Aid Disbursed in 2005								
								Millions of USD					% GDP of Recipient			
								EC	EC - Net of Humanitarian Aid	Humanitarian Aid Value	EU Bilat.	EC + EU Bilateral Total	All Donors	EC	EU Bilat.	All Donors
1	Afghanistan	South Asia	Severe	Severe	Low ..		19	256.62	200.75	55.87	593.47	850.09	2,775.34	3.6	8.3	38.7
2	West Bank	Middle East & North Africa	Core	Core	Low ..		18	206.71	157.92	48.79	269.59	476.3	1,101.63	#####	#VALUE!	#VALUE!
3	Congo, Dem	Sub-Saharan Africa	Core	Core	Low	120	17	213.58	150.75	62.83	465.19	678.77	1,827.57	3.1	6.7	26.2
4	Nigeria	Sub-Saharan Africa	Core	Core	Low	560	15	137.9	137.9	0	5,704.72	5842.62	6,437.31	0.1	5.8	6.5
5	Sudan	Sub-Saharan Africa	Severe	Core	Low	640	18	212.8	95.56	117.24	564.99	777.79	1,828.58	0.8	2	6.6
6	Sierra Leone	Sub-Saharan Africa	Severe	Marginal	Low	220	15	85.64	74.53	11.11	94.09	179.73	343.4	7.2	7.9	28.8
7	Niger	Sub-Saharan Africa	Marginal	NA	Low	240	16	78.46	72.66	5.8	166.55	245.01	515.43	2.3	4.9	15.1
8	Chad	Sub-Saharan Africa	Severe	Marginal	Low	400	14	84.63	63.17	21.46	78.09	162.72	379.83	1.5	1.4	6.9
9	Angola	Sub-Saharan Africa	Severe	Core	Low	1,350	17	70.29	51.46	18.83	138.31	208.6	441.82	0.3	0.5	1.6
10	Burundi	Sub-Saharan Africa	Core	Core	Low	100	16	85.11	46.44	38.67	104.31	189.42	365	10.6	13	45.6
11	Haiti	Latin America & Caribbean	Severe	Core	Low	450	11	55.91	41.34	14.57	107.43	163.34	514.97	1.3	2.5	12.1
12	Cameroon	Sub-Saharan Africa	NA	NA	Low	1,010	17	39.3	39.3	0	263.97	303.27	413.79	0.2	1.6	2.4
13	Tajikistan	Europe & Central Asia	Core	Marginal	Low	330	12	35.96	24.02	11.94	20.06	56.02	241.37	1.5	0.9	10.4
14	Yemen, Rep	Middle East & North Africa	NA	NA	Low	600	14	27.05	24	3.05	117.38	144.43	335.93	0.2	0.8	2.3
15	Eritrea	Sub-Saharan Africa	Marginal	Core	Low	220	13	29.33	23.81	5.52	52.66	81.99	355.15	3	5.3	36
16	Solomon Is	East Asia & Pacific	Severe	Core	Low	590	2	22.76	22.76	0	4.31	27.07	198.24	8	1.5	69.4
17	Kyrgyz Rep	Europe & Central Asia	NA	NA	Low	440	15	17.99	17.86	0.13	51.42	69.41	268.45	0.7	2.1	11
18	Cambodia	East Asia & Pacific	Core	Core	Low	380	15	20.25	17.45	2.8	128.42	148.67	537.82	0.4	2.4	10
19	Liberia	Sub-Saharan Africa	Severe	Severe	Low	130	15	52.99	16.31	36.68	45.43	98.42	236.18	9.7	8.3	43.1
20	Guinea-Bis	Sub-Saharan Africa	Core	Core	Low	180	9	16.26	16.26	0	35.57	51.83	79.12	5.4	11.8	26.3

Table 2: Top 20 Aid Dependent States

#	COUNTRY_NAME	Region	Income Group	GNI/CAP_2005	Number of EU Bilaterals	Aid Disbursed in 2005						
						Millions of USD				% GDP of Recipient		
						EC	EC - Net of Humanitarian Aid	EU Bilat.	All Donors	EC	EU Bilat.	All Donors
1	Mozambique	SSA	Low inc.	310	16	162.57	161.85	510.28	1,285.90	2.5	7.7	19.4
2	Ethiopia	SSA	Low inc.	160	17	163.47	146.31	434.36	1,937.32	1.5	3.9	17.3
3	Tanzania	SSA	Low inc.	340	17	155.76	141.61	616.82	1,505.11	1.3	5.1	12.4
4	Madagascar	SSA	Low inc.	290	11	137.31	136.72	359.74	929.15	2.7	7.1	18.4
5	Zambia	SSA	Low inc.	490	15	139.08	133.02	479.20	945.03	1.9	6.6	13.0
6	Mali	SSA	Low inc.	380	14	130.45	128.95	234.40	691.46	2.6	4.6	13.6
7	Kenya	SSA	Low inc.	530	17	113.53	109.28	263.80	768.33	0.6	1.5	4.3
8	Burkina Faso	SSA	Low inc.	400	13	101.16	101.16	262.42	659.56	2.0	5.1	12.8
9	Ghana	SSA	Low inc.	450	16	77.42	77.42	426.36	1,119.93	0.7	4.0	10.5
10	Bangladesh	South Asia	Low inc.	470	16	78.31	76.97	403.85	1,320.54	0.1	0.7	2.2
11	Rwanda	SSA	Low inc.	230	15	90.99	75.89	205.48	575.99	4.3	9.6	27.0
12	Malawi	SSA	Low inc.	160	15	72.61	69.42	182.40	575.34	3.5	8.8	27.8
13	Uganda	SSA	Low inc.	280	17	83.20	57.69	384.97	1,198.04	1.0	4.4	13.8
14	Vietnam	E. Asia & Pacific	Low inc.	620	18	42.41	42.30	509.48	1,904.87	0.1	1.0	3.6
15	Benin	SSA	Low inc.	510	13	37.83	36.79	145.88	349.05	0.9	3.4	8.1
16	Senegal	SSA	Low inc.	710	16	32.77	32.77	345.11	689.25	0.4	4.1	8.3
17	Mauritania	SSA	Low inc.	560	11	14.80	14.80	83.29	190.37	0.8	4.4	10.1
18	Mongolia	E. Asia & Pacific	Low inc.	690	16	6.36	5.80	53.57	211.85	0.3	2.8	11.3
19	Nepal	South Asia	Low inc.	270	16	9.79	2.94	174.76	427.92	0.1	2.4	5.8
20	Bhutan	South Asia	Low inc.	870	7	2.06	2.06	31.92	90.02	0.2	3.8	10.7

Table 3: Top 20 Lower Middle Income States

#	COUNTRY_NAME	Region	Income Group	GNI/CAP_2005	Number of EU Bilaterals	Aid Disbursed in 2005						
						Millions of USD				% GDP of Recipient		
						EC	EC - Net of Humanitarian Aid	EU Bilat.	All Donors	EC	EU Bilat.	All Donors
1	Morocco	Middle East & North Africa	LMI	1,730	16	293.09	292.99	350.85	651.83	0.6	0.7	1.3
2	Egypt, Arab Rep.	Middle East & North Africa	LMI	1,250	17	182.83	182.83	265.13	925.86	0.2	0.3	1.0
3	Bosnia and Herzegovina	Europe & Central Asia	LMI	2,440	19	164.52	163.28	185.60	546.08	1.8	2.0	5.8
4	Serbia and Montenegro	Europe & Central Asia	LMI	3,280	19	157.50	157.50	451.64	1,131.66	0.6	1.7	4.2
5	Ukraine	Europe & Central Asia	LMI	1,520	18	102.14	102.14	121.99	409.55	0.1	0.1	0.5
6	Tunisia	Middle East & North Africa	LMI	2,890	14	96.64	96.64	231.49	376.49	0.3	0.8	1.3
7	Albania	Europe & Central Asia	LMI	2,580	17	77.75	77.74	115.02	318.67	0.9	1.4	3.8
8	China	East Asia & Pacific	LMI	1,740	17	66.87	65.73	526.37	1,756.88	0.0	0.0	0.1
9	Algeria	Middle East & North Africa	LMI	2,730	15	56.95	50.28	281.67	370.57	0.1	0.3	0.4
10	Macedonia, FYR	Europe & Central Asia	LMI	2,830	18	47.62	47.62	88.96	230.32	0.8	1.5	4.0
11	Peru	Latin America & Caribbean	LMI	2,610	17	42.15	41.81	156.51	397.78	0.1	0.2	0.5
12	Moldova	Europe & Central Asia	LMI	880	16	40.44	40.44	64.47	191.75	1.4	2.2	6.6
13	Bolivia	Latin America & Caribbean	LMI	1,010	14	39.38	39.37	220.72	582.87	0.4	2.4	6.2
14	Colombia	Latin America & Caribbean	LMI	2,290	17	54.92	38.51	97.27	511.09	0.0	0.1	0.4
15	Jordan	Middle East & North Africa	LMI	2,500	15	37.20	36.97	51.67	622.00	0.3	0.4	4.8

16	Indonesia	East Asia & Pacific	LMI	1,280	17	72.13	35.65	505.58	2,523.52	0.0	0.2	0.9
17	Ecuador	Latin America & Caribbean	LMI	2,630	15	35.06	34.77	100.50	209.54	0.1	0.3	0.6
18	Nicaragua	Latin America & Caribbean	LMI	910	14	53.39	33.61	319.49	740.07	1.1	6.5	15.1
19	Syrian Arab Republic	Middle East & North Africa	LMI	1,380	12	32.86	32.82	47.15	77.85	0.1	0.2	0.3
20	Georgia	Europe & Central Asia	LMI	1,350	17	35.86	31.93	100.94	309.77	0.6	1.6	4.8

5. Countries Recommended as Case Studies

From this long list of 60 countries, in this Section we produce a short list of three countries that in our view are the best suited to serve as case studies for the project. To draw this short list, we rely on several criteria intended to allow us to identify the optimal case study candidates based on diversity, interest in terms of EU aid effectiveness, and resources at hand to carry out the case studies. More specifically, we rely on the following criteria:

- Geographic spread and diversity
- Countries not dominated by humanitarian assistance (following the mandate of the Committee to focus on development cooperation)
- Significance/presence of EU donors
- Practicality and feasibility of the case studies so as to maximise ODI's experience given limited resources and time

Based on these criteria, our proposed short list looks as follows:

- Cambodia (Fragile)
- Mozambique (Aid Dependent)
- Peru (Lower Middle Income)

In our view, the combination of these three countries offers tremendous potential to analyse experiences with EC/EU Members aid and to draw lessons based on those experiences to make aid more effective.

Cambodia: A large number of fragile states are also experiencing ongoing conflict. In many contexts this appropriately results in a significant humanitarian spend. The objectives of humanitarian aid are to 'save lives, alleviate suffering, and maintain human dignity during and in the aftermath of man-made crises and natural disasters'.⁷ These objectives are distinct from those of development aid, which aims to reduce poverty, promote growth, and strengthen government institutions and state capacity. While recognising the primary responsibility of states for victims of humanitarian crises, humanitarian assistance is also often delivered directly through operational agencies due to a lack of state will and/or capacity. This situation is most common in fragile states.

Given the distinctiveness of humanitarian aid and its differing objectives, 'effectiveness' is likely to be defined and perceived differently to that of development aid. We therefore believe that the analysis of EC aid effectiveness in a fragile state context will be strengthened by selecting a case study in which the large majority of EC expenditure is development assistance, not humanitarian aid. Table 1 in Section 4 above shows EC aid disbursed net of humanitarian aid. Those countries with small or no humanitarian expenditure are shaded and are recommended as more appropriate countries from which the fragile states case study should be selected.

⁷ *Principles and good practice of Good Humanitarian Donorship* endorsed by the EC and a large number of EU governments in Stockholm 2003 and accepted by the OECD/DAC in 2006.

Table 1 also shows the World Bank LICUS classification for individual fragile states (severe, core or marginal). We recommend that the selection of the fragile states case study be limited to those countries classified as severe or core, given that a marginal classification indicates that the country's CPIA is on the edge of what is considered LICUS. A marginal country may therefore not provide a context sufficiently different from those countries classified as aid-dependent.

Once the list of twenty fragile states is filtered based on humanitarian spend and LICUS classification, five countries stand out as possible case study choices: Nigeria, Eritrea, Solomon Islands, Cambodia, and Guinea-Bissau. From this short list Cambodia is strongly recommended as the most appropriate case study based on:

- The number of EU bilaterals involved in the country and the volume of overall EU aid disbursed
- LICUS classification as 'core' in both 2005 and 2006
- Regional spread across the three case study countries selected

Mozambique: As illustrated in Table 2 above, Mozambique is the largest recipient of EC aid net of humanitarian assistance and also receives large volumes of overall EU aid, making it an ideal candidate for the case study. In addition, ODI has a very strong track record of working in Mozambique and has considerable experience with and intimate knowledge of the aid environment in the country. Finally, Mozambique also offers regional spread based on all the case studies selected.

Peru: As Table 3 above illustrates, Peru is the largest recipient of EC aid in Latin America under the Lower Middle Income category. In addition, there are a large number of EU bilateral agencies involved in the country (17). Because Peru has been in the midst of a significant political and economic transformation over the past decade, it offers a compelling opportunity to analyse the effectiveness of donor efforts to promote country ownership and good governance reforms, and to explore the implications of the Paris Agenda on harmonisation and alignment. In addition, ODI has a growing Latin America group which includes researchers from both Peru and Mexico who have an intimate knowledge of the political, economic and social processes impacting the region.

ANNEX 2
METHODOLOGY FOR THE CASE STUDIES

Methodology for the Case Studies

Prepared by ODI

April 2007 (Updated May 2007)

**To support field visits for the EU Aid Effectiveness project
commissioned by the European Parliament's Committee on
Development**

Purpose of this Document

This document is intended to provide guidance to the researchers carrying out the three case studies (Cambodia, Mozambique, and Peru) for this project. It describes the overall process, outlines a series of themes and questions that need to be addressed in the field, and provides a broad outline for the case study reports, to be tailored by each case study author as they see fit.

The paper is organised as follows:

1. Overall process
2. A set of tables outlining key themes and questions for the study, divided in the following categories:
 - Setting the context and analysing perspectives on national policy and public expenditure management
 - EC Strategy Development, Programming and Modality Choice
 - EC Financing – Disbursements, Procurement Etc.
 - EC’s Role in Aid Management and Donor Coordination
3. Brief list of useful documents that case study authors should be familiar with
4. A suggested country case study report outline

1. Overall Process

The overall process involving the planning and carrying out the case studies and writing the case study reports entails the following steps:

- Distribution of methodology and requests for interviews
- Desk-based review of aid flow data (paper titled ‘Case Study Selection Methodology Paper’ prepared by Geoff Handley, which has been sent to all case study authors already) and existing studies (desk-based reviews undertaken by case study authors)
- Country Visit

Some of the main steps involved in the country visit include the following:

- initial briefing with EC Delegation – **this is an essential first step** to keep the EC Delegation informed about what this project is about and what it entails, as well as to ask the EC Delegation for support in terms of interviewing staff, accessing useful documents, etc.
- review of key evaluations, assessments, and other documents, both from the EC Delegation and other donors/sources as appropriate

- meetings/interviews with key stakeholders (delegation [different groupings], other donors [EU bilaterals, Development Banks, UNDP, other multilaterals], Government [aid management, Ministry of Finance and other significant line ministries], civil society [think tanks, academics, NGOs, etc] where appropriate)
 - de-briefing with the EC Delegation
- Draft country report (20 pages maximum)
- Submit draft to ODI team manager (Alina)
- Share a draft with the Delegation for informal comment
- 2nd draft of country report to the EP Secretariat for comments
- Synthesis report
- Comments and revisions
- Presentation to European Parliament

2. Set of tables outlining key themes and questions for the study

As discussed, the themes and questions that we seek to address have been divided into four broad categories. In combination, the themes and questions listed in Tables 1, 2, 3, and 4 seek to provide information on the following:

- Background questions that address the overall context of aid in the country.
- Internal coherence and connectedness of EC international assistance
- Country ownership of development strategy and donor alignment with those priorities and objectives
- Harmonisation

A few things to keep in mind from the outset:

- Each table outlines what issues/questions need to be addressed primarily through desk analysis/background, and which need to be addressed through filed-based analysis and interviews. This is intended to assist the researcher in establishing clear priorities as to the kind of material that can only be generated through interviews, and the kind of information that can be found through a desk review.
- We have attempted to draft open-ended questions and limit ourselves to 8-10 questions in each category so as to provide guidance to the researchers about the kinds of issues we would like the case studies to cover without prejudging the answers. It will be up to each researcher to follow up on these questions as s/he sees

fit based on the kind of information s/he finds. The researcher should exercise his/her judgment about what questions will be the most important to ask depending on whom s/he is speaking with and what additional information s/he needs.

- In the measure possible, researchers should try to keep good notes of each of their interviews. In addition to the case study reports, these notes will be extremely useful to the ODI team manager when drafting the synthesis report.
- An important goal of this project is to identify areas where progress has been made in terms of internal coherence/connectedness, alignment, and harmonization, discuss some of the main challenges to aid effectiveness, and draw out emerging lessons from each of the case studies, so please do keep this in mind when conducting interviews and reviewing documents.

Tables of themes and questions:

1. Setting the context and analysing perspectives on national policy and public expenditure management	
Desk Analysis/Background:	
<ul style="list-style-type: none"> • What is the country situation regarding: (i) political and governance issues; (ii) economic development; (iii) poverty and social indicators, and; (iv) overall levels of aid and modalities received? • Who are the main donors and what are their areas/sectors of priority? • Does the country-led national development strategy have both a long-term vision and a medium-term strategy? Are there specific targets? • Is the development plan linked to the budget and an MTEF? • Is there a separate document outlining the desired role for external assistance? • Are forums and initiatives established at the national (and subnational) level to promote the implementation of the Paris Declaration? • Has a PEFA or other type of PFM assessment been conducted? If so, what was the outcome? 	
Field-Based Analysis / Interview Questions	Notes
a) What is your perception of the quality of the national development plan and the process for its development?	CSO involvement
b) In your view does the national development plan provide a clear guide for donor prioritisation?	E.g. Choice between sectors?
c) Are government officials and other relevant stakeholders aware of the principles and goals embedded in the Paris Declaration and associated efforts?	
d) What is the process for developing and monitoring implementation of the national development plan? Is it inclusive, broadly participatory, and	

representative?	
e) Is it possible for donors to align behind the national development strategy and national processes? If not, why not?	
f) What systems exist to promote harmonisation with other donors and how operative are they?	Streamlined reporting and mgt requirements, clear harmonisation goals etc

2. EC Strategy Development, Programming and Modality Choice

These questions could also be asked of other donors to enable comparison

Desk Analysis/Background:

- What is the EC policy and procedure for country strategy development? How much of the process is determined/mandated by headquarters and how much is determined at the Delegation level?
- How are budget allocations to individual countries (through EDF, DCI and thematic budget lines) determined?
- What is the size of the EC budget and through what budget lines is funding being provided?
- Is there a current country strategy paper?
- Does it include funding from all different EC streams?
- What is the sectoral breakdown of EC development assistance?
- Through what modalities is EC assistance being channelled? (E.g. Any SWAps, SBS, GBS, or multi-donor trust funds etc) Who is delivering this assistance? (E.g. UN vs. NGO etc)

Field-Based Analysis / Interview Questions	Notes
a) Is the timing of the country strategy development process determined by headquarters or by the delegation? Is there sufficient flexibility to ensure alignment with the timing of government planning and budget processes?	
b) How do EC programming and strategy decisions relate to the national development plan? Is it possible for the EC to fully align behind these national strategies? If not, is this due to the quality of government processes of EC procedures? Does this apply equally to funding from all budget lines?	Is EC aid being disbursed through a programme-based approach with govt leadership, single framework etc?
c) If the quality of government processes is constraining donor alignment with country development priorities, are there systems in place to monitor progress? Are benchmarks that could result in a shift in EC approach clear?	
d) Does the EC Delegation have different responsibilities or authority for thematic budget lines to country programming (EDF or DCI)?	
e) How are decisions made regarding programming allocations (between sectors) and modalities? Is this done in-country (for all budget lines)?	How have deconcentration reforms impacted on this?
f) How are programming decisions influenced by other donors?	Different for EU and non EU?
g) Can you provide some examples of particularly good donor alignment to country policy priorities, and what lessons can be derived from them?	Identify key lessons and constraints (e.g. are constraints due to HQ

In your view, are there ways the EC approach to programming and strategy development could be made more efficient, effective or coherent?	processes or policies?, etc)
h) What do you see as the key constraints to high quality aid management?	
i) How is M&E undertaken? Does this differ across modalities and budget lines? How are lessons fed back into programming?	

3. EC Financing – Disbursements, Procurement Etc.

Desk Analysis/Background:

- Approximately what proportion of EC aid is managed by the use of national procedures (PEFA indicator D – 3)? In particular what proportion of EC aid flows:
 - Are captured: (i) in the state budget; (ii) in the national Treasury, and; (iii) in state external audit documents (N.B. difficult to obtain – may need to follow-up at interview).
 - Follow government procurement processes.
- What does the available data reveal about EC aid predictability of different modalities when programmed commitments are compared with actual disbursements (PEFA D – 1)?
- How far are EC disbursements linked to government performance for different modalities (e.g. note the use of variable tranche or triggers)? Are such performance triggers imposed on commitments or disbursements?
- What systems are in place for relaying timely and adequate information on donor (and EC in particular) financial information (both for budgeting and reporting) to government (PEFA D – 2)?

Field-Based Analysis / Interview Questions	Notes
a) Is financial information provided by the EC for budgeting and reporting on project and programme aid adequate and timely (PEFA D – 2)?	Directed to officials of MoF or Planning and sectors for SWApS
b) If there is unpredictability in EC aid disbursements, what are the principal causes of this? What sort of impacts has it had on government activities (e.g. global liquidity constraints or sectoral implementation delays)?	“Unpredictability” = differences between commitments and disbursements in terms of levels <i>and</i> timing
c) What is your perception of the quality of country PFM systems against accepted PEFA benchmarks (credibility of the budget, accounting, reporting, audit, procurement procedures)? What types of reforms are in place to promote improved practices? What is the EC’s involvement?	This will apply both globally for GBS and sectorally for SWApS. Note that is question is closely related to question c in section 2 above
d) What is the potential for achieving greater integration with government systems without compromising aid effectiveness? Does the EC have a particular strategy to work towards greater reliance on country systems as stipulated by the Paris declaration? How is progress tracked (e.g. PEFA)?	
e) What is the balance between the use of Project Implementation Units (PIUs) and country / national systems in the disbursement of EC aid?	
f) Can you think of one or two programmes that are particularly good examples of EC alignment to government systems? What lessons can be derived from these examples for the EC as a whole?	Same as question g in section 2 above, but here emphasis is on SYSTEMS rather than

	POLICY
g) What are the main constraints on progress on systems alignment (e.g. HQ requirements for needs assessment / analysis etc.)?	

4. EC's Role in Aid Management and Donor Coordination

Desk Analysis/Background:

- How many EU member aid programmes are there in the country?
- Are many of them newly established?
- What is the prospect for new EU members to establish bilateral cooperation programmes in-country, and what kind of impact is that likely to have on donor harmonisation/coordination efforts?
- What percentage of EC funds is channelled through joint systems or programmes?

Field-Based Analysis / Interview Questions	Notes
a) Within the EC, what systems exist to promote harmonisation with other donors and how operative are they? To what extent are EC policy, programming processes and procedures able to be harmonised with those of other donors (budget allocation and disbursement procedures, predictable funds release, procurement systems etc)? Are there any system, policy or process constraints to harmonisation? How could these best be overcome?	Both policy and programme relevant
b) What role should the EC Delegation be playing with respect to EU member harmonisation? Is it currently playing this role? What constraints does it face in doing so?	
c) Are there instances where the EC has sought to simplify its systems, develop common procedures, and/or initiate joint activities (e.g. missions, analytical work, evaluations, etc) with other donors?	Joint – missions, analysis, performance measurement
d) Can you provide one or two examples of harmonised working in-country (GBS, SWAp, pooled TA)? How successful have such efforts been? How much has donor behaviour changed?	
e) What is/are the EC's comparative advantage(s) in the provision of development assistance? Is it in fact leading other donor efforts in this area(s)? If not, why not?	
f) What kind of impact are EU expansion and the establishment their own bilateral aid programmes likely to have on harmonisation efforts at the country level? What role could the EC play in this regard? Could it play an overall coordinating role – and should it? Any experience in this regard already?	Also 'older' EU members establishing programmes in new countries
g) What kind of capacities would the EC need to acquire to play a different role?	
h) Are there any experiences and lessons relating to donor harmonisation in this country, and/or the EC's role, that could have broader relevance?	

3. Brief list of useful documents that case study authors should be familiar with:

- Paris Declaration and its 12 indicators:
http://www.oecd.org/document/18/0,2340,en_2649_3236398_35401554_1_1_1_1,00.html
<http://www.oecd.org/dataoecd/57/60/36080258.pdf>
- OECD DAC documents on Paris Declaration monitoring processes for each country as available
- Individual country Joint Staff Assessment Note
- Country reports, evaluations, assessments produced by EC Delegations as well as other donors
- Documents that have been distributed by the project manager, including the case study selection methodology paper produced by ODI for this project and others

4. Country case study outline:

A. Introduction and Summary

- Purpose of country report
- Approach
- Key findings
- Key lessons (including good practices)

B. Background: Country context and aid context

- Political and governance issues
- Economic development
- Poverty and social indicators
- Overall levels of aid, aid dependence, and types of aid received
- EC aid contributions
- Structure of EC aid, including budget lines
- Trends and future prognosis

C. Country progress in developing national development strategy and exercising ownership over the development process

- Mechanisms that are in place to identify country development priorities and objectives (e.g. PRS)
- Progress made so far based on such mechanisms
- Degree of representation/legitimacy/participation that those processes have
- Assessing degree of 'national' ownership by governmental and non-governmental stakeholders

D. Donor (EC) progress on Alignment

E. Donor (EC) progress on Harmonisation

F. Internal coherence of EC assistance programme in country

G. Key lessons emerging and considerations for the European Parliament

ANNEX 3

CAMBODIA: LIST OF PEOPLE INTERVIEWED

1. His Excellency Dr. Hang Chuon Naron, Secretary General, Ministry of Economy and Finance
2. Dr Rith Vuthy Director – Europe Department, CDC/CRDB
3. CHOU Heng, National Policy Adviser, Head CDC Policy Department
4. Philip Courtnadge, Senior Adviser, UNDP/CRDB
5. Seth Van Doorn, Political and Commercial Affairs Officer, Charge D’Affaires a.i, Delegation of the European Commission to Cambodia
6. Daniel Costa Lobet First Secretary, EC Delegation
7. Christian Prevost, Counsellor Economic, Delegation of the EC to Cambodia
8. Simone Seper, Education and Health Sectors, Delegation of the EC to Cambodia
9. Andrew Jacobs, Head of Operations, EC Delegation, Bangkok
10. Delphine Brissonneau, Rural Development Sector, EC Delegation, Bangkok
11. Jolanda Jonkhart, PFM Sector, Delegation of the EC to Cambodia
12. Carol Strickler Executive Director, Cooperation Committee for Cambodia
13. Mia Hyun Poverty Specialist, World Bank, Cambodia Country Office
14. Tim Conway, Poverty Specialist, World Bank, Cambodia Country Office
15. Rob Taliercio, Senior Country Economist, World Bank, Cambodia Country Office
16. Peter Murphy, PFM Reform Programme, World Bank, Cambodia Country Office
17. Beng Simeth, Human Development Operations Officer, World Bank, Cambodia Country Office
18. Ann Lund, Coordinator UN, Office of the UN Resident Coordinator in Cambodia
19. Eva Smedberg, Counsellor, Swedish International Development Agency (SIDA), Resident Representative
20. Eiichiro Hayashi Aid Coordination Adviser, Japan International Cooperation Agency (JICA)
21. Guillaume Prevost Economic Counsellor, French Embassy
22. Helen Appleton, Social Development Adviser, DFID, Co Lead Facilitator of Partnership and Harmonisation Technical Working Group, First Secretary

ANNEX 4

CAMBODIA: CURRENT EC PROJECTS

List of EC projects currently ongoing in Cambodia
Source: CDC Database

1	A model of development of Cambodian Crafts and SMEs	1-Apr-2005	1-Jan-2007	163,869.00 EUR	Completed
2	A project to develop, introduce and scale up a model for QVCT for HIV into clinics in Cambodia, Vietnam and Myanmar	1-Jul-2005	30-Jun-2008	862,910.00 EUR	On-going
3	Advanced livelihood and sustainable development for indigenous people in Ratanakiri Province, Kingdom of Cambodia	1-Jan-2007	1-Jul-2009	870,680.00 EUR	On-going
4	Advancing and Promoting Human Rights for Displaced and Marginalized Communities in Cambodia through a National Human Rights Education Campaign	29-Dec-2006	31-Jan-2009	128,281.00 EUR	On-going
5	Amélioration des conditions de vie et des perspectives d'avenir des enfants cambodgiens en milieu rural	1-Jul-2001	11-Oct-2006	1,015,258.15 EUR	Completed
6	Appui a l'economie paysanne dans les zones sensibles au risque agricole	1-Jun-2002	28-Feb-2006	1,012,500.00 EUR	Completed
7	ASEAN Centre for Biodiversity (ACB)	1-Dec-2005	31-Dec-2009	730,000.00 EUR	On-going
8	ASEM Anti Money Laundering Initiative	20-Dec-2001	19-Dec-2005	449,451.00 EUR	Completed
9	Block Grant 2004	22-Dec-2005	1-Jan-2008	497,408.00 EUR	On-going
10	Block Grant 2005 Cambodia	16-Dec-2006	16-Dec-2009	935,000.00 EUR	On-going
11	Building the Capacity of Disability Rights Movements in Cambodia	29-Dec-2005	1-Jan-2010	1,021,060.04 EUR	On-going
12	Cambodia 2000: Training on Water Management and installation of a water system in Taing Krasaing, Phase II	10-Dec-2004	30-Nov-2007	860,000.00 EUR	On-going
13	Cambodia Farmer Food Security Project In Mesang And Romeas Hek Districts Of Prey Veng And Svay Rieng	1-Jun-2002	28-Feb-2006	1,577,490.00 EUR	Completed
14	Cambodian Defender's Project (CDP) Legal Aid and Rule of Law Advocacy Action	20-Jan-2005	1-Jan-2009	1,158,383.00 EUR	On-going
15	Cambodian Freshwater Fisheries Export Training - Asia Invest	1-May-2005	1-Jan-2007	91,835.96 EUR	Completed
16	Capacity Building and Policy Reinforcement in Cambodia in the Field of Waste Management	1-Feb-2004	28-Feb-2006	394,975.01 EUR	Completed
17	Capacity building for pluralistic democratic structures on commune level in Cambodia	5-Apr-2002	4-Mar-2006	753,391.10 EUR	Completed
18	Capacity Building for the Rights of Indigenous Peoples in Cambodia	7-Dec-2006	1-Jan-2009	194,980.00 EUR	On-going
19	Child Friendly School Development (CFSD) Project Cambodia	1-Jan-2007	13-Jul-2011	1,015,903.00 EUR	On-going
20	Children's Legal Protection	29-Dec-2003	1-Jan-2008	1,436,142.00 EUR	On-going

21	CITYBLUES: Practical implementation of ecological and engineering principles in integrated storm water management	14-Apr-2004	14-Apr-2007	408,991.45 EUR	Completed
22	Community Based Health and Development Project	29-Dec-2006	1-Jan-2012	978,987.86 EUR	On-going
23	Community Child Rights Project	1-Jan-2007	1-Jan-2009	31,620.00 EUR	On-going
24	Community Management and Capacity Building for self-reliant and sustainable poverty alleviation in Cambodia	27-Dec-2006	1-Jan-2010	401,424.41 EUR	On-going
25	Community-led poverty reduction in former conflict zones in North-West Cambodia	16-Dec-2005	1-Oct-2010	999,800.00 EUR	On-going
26	Concept of wastewater treatment and implementation of a pilot plant in the city of Battambang	20-Dec-2006	1-Aug-2010	726,101.28 EUR	On-going
27	Definition of the curriculum and training of all instructors for start up of a new and full cycle of maritime navigation training and education in Cambodia	1-Sep-2004	1-Aug-2007	404,282.38 EUR	On-going
28	Degree in Information Technology Services	24-Mar-2005	1-Jan-2007	171,242.00 EUR	Completed
29	Development of a virtual transport community in Cambodia	1-Jan-2005	31-Mar-2006	221,276.00 EUR	Completed
30	Development of SMEs in the Agro Industry Sector in Cambodia	8-Jan-2007	31-Dec-2012	11,300,000.00 EUR	Pipeline
31	Developpement Communautaire et Socio-Economique de familles defavorisees reimplantees en milieu periurbain a Phnom Penh	1-Mar-2004	1-Mar-2008	1,061,762.00 EUR	On-going
32	Developpement de la lecture pour les enfants au Cambodge	22-Jan-2002	1-May-2005	670,186.45 EUR	Completed
33	Drug Prevention and Harm Reduction Programme for Street Children Using Substances	15-Jan-2001	10-Aug-2005	352,722.51 EUR	Completed
34	EC General Budget Support to Cambodia	1-Dec-2007	31-Dec-2010	22,200,000.00 EUR	Pipeline
35	EC-ASEAN Intellectual Property Rights Programme (ECAP II) - Cambodia	29-Jul-2005	1-Jan-2008	500,000.00 EUR	On-going
36	EC-Cambodia Standards, Quality and Conformity Assessment	1-Aug-2005	5-Apr-2007	422,150.00 EUR	Completed
37	ECOSORN - Economic and Social Relaunching of the Northwestern Provinces	7-Dec-2005	31-Dec-2010	26,000,000.00 EUR	On-going
38	Efficient Production Training Programme for Cambodia	1-Sep-2004	1-Sep-2005	93,300.00 EUR	Completed
39	Empowering disadvantaged urban and rural communities for the defence of their basic human rights in the course of land conflicts and development process.	6-Dec-2006	1-Dec-2009	78,808.00 EUR	On-going
40	Empowering Local Communities	1-May-2005	31-May-2006	101,148.00 EUR	Completed
41	Enhancing Implementation of UNCRC and Cambodian Law in Battambang Province	29-Dec-2006	31-Jan-2010	110,130.00 EUR	On-going
42	Establishing a Policy in the Disposal of Dry Batteries in Cambodia (BATCAM)	19-Dec-2005	1-Sep-2007	219,481.61 EUR	On-going
43	EU - Southeast Asia Civil Aviation Cooperation Project	29-Dec-2000	31-Dec-2007	797,634.60 EUR	On-going

44	EU-Cambodia Smallholder Livestock Production Project	1-Apr-2005	31-Dec-2011	4,483,108.00 EUR	On-going
45	European Fund for Micro Projects (EFMP)	14-Jul-2004	30-Jun-2011	2,018,180.00 EUR	On-going
46	Food Security for vulnerable rural population in Banteay Mean Chey Prov.	1-Apr-2002	28-Dec-2006	718,004.00 EUR	Completed
47	Food Security in Padek project areas	16-Jul-2002	30-Jun-2006	1,082,286.00 EUR	Completed
48	Food Security Programme in Battambang and Kampong Speu	1-Jan-2002	1-Jan-2005	1,141,249.00 EUR	Completed
49	Fostering a culture of disabled persons in Cambodia	30-Dec-2006	1-Jan-2009	161,281.60 EUR	On-going
50	Gate Project: Enhancing Livelihood Options for Girls through Advocacy, Training and Employment, Cambodia	11-Dec-2006	31-Dec-2012	975,000.00 EUR	On-going
51	Health Behavioural Change Communication (BCC)	17-Dec-2004	31-Dec-2009	5,000,000.00 EUR	On-going
52	Improving Access to Quality Primary Education for Cambodian Street and Out-of-School Children, Cambodia	19-Dec-2006	31-Dec-2010	1,000,000.00 EUR	On-going
53	Improving Livelihoods of Young Cambodians in Difficult Circumstances through Prevention and Sustainable Social Reintegration	17-Dec-2005	29-Dec-2011	1,683,752.00 EUR	On-going
54	Improving Local Governance Through Commune Council Partnership Strengthening	1-Jan-2006	1-Jan-2008	103,579.86 EUR	On-going
55	Improving quality practices in the rice and fish sector in Cambodia	29-Sep-2004	29-Sep-2006	148,751.00 EUR	Completed
56	Improving the enabling environment to provide community led family planning and reproductive health to poor and vulnerable communities across 9 provinces - CAMBODIA	29-Dec-2006	1-Jan-2010	842,176.00 EUR	On-going
57	Improving the Situation for Disadvantaged Groups in Rural Cambodia: A Capacity Building Approach to Community Mental Health Care	1-Jan-2006	1-Jan-2010	1,382,268.09 EUR	On-going
58	Increasing Community Action on HIV/AIDS Prevention integrated with Care and Impact Mitigation Efforts in Cambodia	28-Dec-2006	2-Jan-2012	2,911,776.00 EUR	On-going
59	Increasing the relevance and effectiveness of HIV/AIDS prevention and care among youths through Cambodia-Thailand partnership	1-Feb-2004	31-Jan-2007	5,378,376.00 EUR	Completed
60	Indigenous Minority Rights Project	1-May-2005	31-Jul-2006	103,042.00 EUR	Completed
61	Indigenous People Realising the Improvement of Good Health Through Sustainable Structures (IP RIGHTS) - Cambodia	29-Dec-2006	1-Apr-2011	920,226.29 EUR	On-going
62	Institutional Support Programme (ISP)	1-Jan-2004	30-Jun-2007	3,400,000.00 EUR	On-going
63	Integrated biodiversity conservation and development of the Cardamom Mountains	1-Aug-2003	30-Apr-2007	1,045,880.00 EUR	On-going
64	Integrated Environment Information System in Siem Reap (INTEGRITAS)	22-Dec-2005	1-Oct-2007	759,579.09 EUR	On-going
65	Integrated Food Security, Water and Sanitation Improvement Programme in Preah Vihear	1-Feb-2002	30-Jan-2006	940,553.00 EUR	Completed

66	Integrated Rural Development in Otdar Meanchey	1-May-2003	1-Aug-2006	716,968.00 EUR	Completed
67	Integrated rural development through empowerment project Thpong	1-Jan-2003	28-Feb-2006	931,016.40 EUR	Completed
68	Integrated Rural Development through empowerment project (IRDEP) Thpong II	12-Dec-2005	1-Jan-2011	1,000,000.00 EUR	On-going
69	Mainstreaming Inclusive Primary Education, Cambodia	20-Dec-2005	4-Jan-2011	1,812,972.00 EUR	On-going
70	Multilateral Trade Assistance Project (Multrap)	15-Jan-2004	14-Nov-2006	1,884,918.00 EUR	Completed
71	National Wood energy policy implementation in Cambodia	23-Jul-2002	24-Jan-2007	1,541,640.00 EUR	Completed
72	Open Source for Weed Assessment in Lowland Paddy Rice Fields (OSWALD)	31-Dec-2004	1-Jan-2007	451,500.00 EUR	Completed
73	Pailin Food Security Project	1-Jan-2007	1-Jan-2010	708,086.00 EUR	On-going
74	Poverty Alleviation through appropriate health interventions in Thmar Pouk	1-Jul-2003	1-May-2006	1,242,932.00 EUR	Completed
75	Powering Harbour Development in SE Asia using renewable energy	23-Mar-2005	23-Mar-2008	1,186,978.50 EUR	On-going
76	PRASAC II - Projet de rehabilitation et d'appui au secteur agricole du Cambodge phase 2	1-Jan-2000	31-Dec-2003	36,580,171.00 EUR	Completed
77	Preah Vihear integrated health care project	17-Jun-2002	17-Apr-2007	1,375,628.00 EUR	Completed
78	Prevention of road traffic injuries in Cambodia	29-Dec-2006	1-Jan-2010	982,692.00 EUR	On-going
79	Productivity challenge: Enhancing Cambodian service provision to SMEs and capacity building for integral service organisations	1-Sep-2005	1-Sep-2007	210,535.00 EUR	On-going
80	Programme éducatif et psycho-social pour les enfants de la province de Battambang	1-May-2001	1-Jul-2005	1,158,872.40 EUR	Completed
81	Project on developing the literary environment in order to improve the quality of education and to combat illiteracy in Cambodia	17-Dec-2005	31-Dec-2009	2,012,147.84 EUR	On-going
82	Projet d'accompagnement des familles vulnérables en milieu rural au Cambodge	20-Dec-2005	20-Dec-2010	1,207,565.14 EUR	On-going
83	Projet de réduction de la pauvreté par la structuration du monde rural dans les provinces de Battambang, Kompong Thom, Prey Veng, Takeo	1-Jan-2007	1-Jan-2011	826,047.00 EUR	On-going
84	Projet Système d'Assurance Santé (SAM)	1-Sep-2001	1-Oct-2005	398,532.08 EUR	Completed
85	Promote Human rights to reduce trafficking and sexual/labour exploitation of women and children	22-Dec-2005	10-Jun-2009	64,688.00 EUR	On-going
86	Promoting Community Forestry in Cambodia	1-Jun-2005	1-Jun-2010	1,623,529.00 EUR	On-going
87	Promotion and preservation of Human Rights in Rural Cambodia	1-Jan-2006	1-Jan-2008	129,950.00 EUR	On-going
88	Promotion d'Agriculture Paysanne dans la region de Prey Veng	1-Jan-2004	1-Jan-2008	426,806.00 EUR	On-going

89	Promotion of Human Rights and Legal Assistance in the Context of Sexual Behavior (EIDHR 2004)	21-Dec-2005	1-Jan-2009	800,022.00 EUR	On-going
90	Public Financial Management Reform	2-Dec-2006	2-Dec-2011	13,100,000.00 EUR	On-going
91	Reform of Battambang Province Administration	6-Jan-2003	5-Apr-2005	500,000.00 EUR	Completed
92	Renforcement de l'offre educative scolaire et non-scolaire dans le district de Samlot	1-Jan-2001	1-Nov-2004	1,062,654.42 EUR	Completed
93	Reproductive health initiative for youth in Asia (RHIYA) - phase II	26-Mar-2003	30-Sep-2007	2,648,571.43 EUR	On-going
94	Rights to Participation	12-Dec-2005	1-Jan-2007	120,252.73 EUR	Completed
95	Rural Cambodian Youth Sexual Reproductive Health (RCYSRH)	1-Jan-2006	20-Mar-2009	1,650,390.00 EUR	On-going
96	Rural Development for Vulnerable Displaced Populations in two North-West Provinces	1-Dec-2004	1-Dec-2007	749,900.69 EUR	On-going
97	Samroang Ampil Community Reintegration and Development	25-Apr-2002	25-Apr-2005	765,012.00 EUR	Completed
98	Securing Children's Rights in Cambodia	15-Jul-2004	14-Jul-2007	900,000.00 EUR	On-going
99	Small Grants Programme for Operations to Promote Tropical Forests (SGP PTF) ASEAN Regional Project	1-Dec-2000	1-Dec-2007	559,000.00 EUR	On-going
100	Strengthening democratic and decentralized local governance in Cambodia: building local capacity through networking and local-local contribution	20-Dec-2005	20-Dec-2010	10,500,000.00 EUR	On-going
101	Strengthening of Pilot City Administrations Battambang and Siem Reap	2-Dec-2004	1-Dec-2007	1,054,500.00 EUR	On-going
102	Strengthening the role of lawyers in Cambodia for a more equitable justice system	15-Jan-2006	15-Jan-2009	554,791.00 EUR	On-going
103	Support to Cambodia Trade Sector Development Programme	1-Jul-2007	1-Jul-2011	7,400,000.00 EUR	Pipeline
104	Support to the Khmer Rouge Tribunal (KRT)- Cambodian budget share of KRT operations	1-Jan-2006	31-Dec-2008	995,100.00 EUR	On-going
105	Support to the Khmer Rouge Tribunals via the Extraordinary Chambers and International Criminal Court Justice project	13-Dec-2006	1-Jan-2010	1,290,886.05 EUR	On-going
106	Sustainable trade for social enterprises, Cambodia	1-Jan-2006	15-Feb-2009	598,532.32 EUR	On-going
107	Targeted EC Support to Pro-poor Education Reform in Cambodia - Complementary Support	28-Mar-2003	30-Jun-2010	5,000,000.00 EUR	On-going
108	Targeted EC Support to Pro-poor Education Reform in Cambodia - Sector Budget Support	28-Mar-2003	30-Jun-2010	15,000,000.00 EUR	On-going
109	Technical Assistance, Cambodia Craft into the Market	17-Oct-2003	17-Oct-2005	77,089.34 EUR	Completed
110	The rehabilitation of disabled people in three provinces of Cambodia through the development of rehabilitation centres.	1-Jan-2001	1-Jan-2006	1,398,755.58 EUR	Completed
111	Towards the local ownership of the rehabilitation sector for People with Physical Disabilities (PWPD)- CAMBODIA	28-Dec-2005	1-Jan-2009	2,572,000.00 EUR	On-going

112	Unmet needs for comprehensive reproductive health information and services amongst vulnerable groups and the general population in four key locations	1-Jun-2003	1-Jun-2006	749,996.00 EUR	Completed
113	Upgrading the Cambodian Craft Cooperation (CCC) for trade promotion with the EU	4-Apr-2006	1-Oct-2008	306,798.00 EUR	On-going
114	Using Media to Raise Awareness and Participation in Decentralization.	1-Jan-2005	30-Jun-2006	122,692.00 EUR	Completed
115	Utilising the Buddhist monks and school students to prevent sexual abuse and child labour	9-Dec-2006	31-Dec-2009	114,478.00 EUR	On-going
116	Victim and Witness Protection Standards for the Khmer Rouge Tribunal and Beyond	4-Dec-2006	30-Sep-2009	500,000.00 EUR	On-going
117	Water, Sanitation and Food Security in Otdar Meanchey	1-Dec-2004	1-Jan-2008	663,996.00 EUR	On-going
118	Women Speaking Out on Human Rights	9-Dec-2006	9-Jun-2008	118,576.25 EUR	On-going
119	Women's Rights are Human Rights	12-Dec-2005	1-Jan-2007	106,377.85 EUR	Completed
120	Working with disabled people in Cambodia	19-Sep-2000	1-Jan-2006	1,044,149.00 EUR	Completed

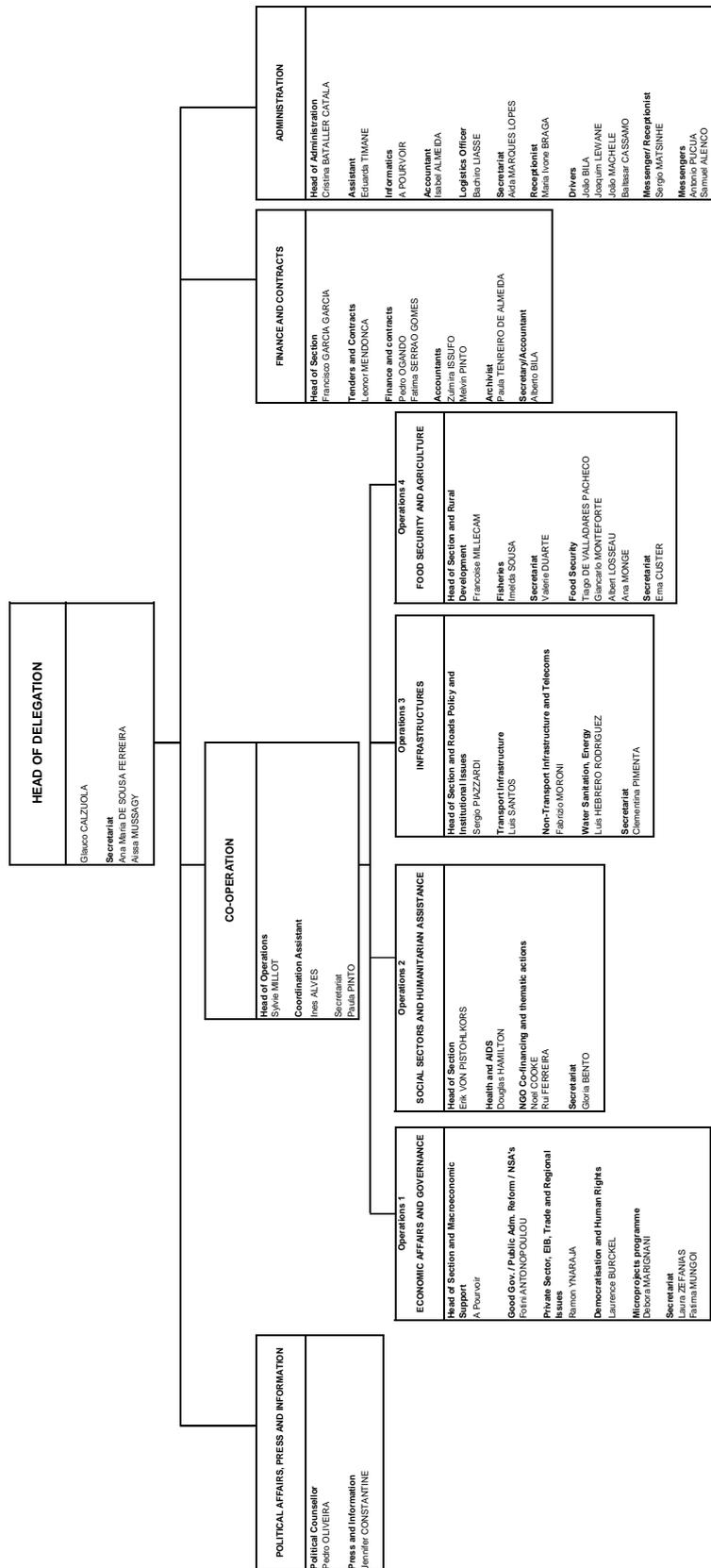
ANNEX 5

MOZAMBIQUE: LIST OF PEOPLE INTERVIEWED

#	Name	Position	Institution
1	Sylvie Millot	Head of Operations	DELMOZ
2	Claudio Salinas	Head of Economics and Governance	DELMOZ
3	Erik Von Pistohlkors	1st Secretary, Social Sectors and Hum. Assistance	DELMOZ
4	Esther Bouma	Health Coordinator	DELMOZ
5	Tiago de Valladares Pacheco	Food Security	DELMOZ
6	Francoise Millecam	Head of Agriculture and Food Security	DELMOZ
7	Debora Marignani	Economist	DELMOZ
8	Jolke Oppewaal	Economist	Dutch Embassy
9	Mette Masst	Minister Counsellor	Norwegian Embassy
10	Telma Loforte	Economist	SDC
11	Simon Vanden Borecke	Economist	DfID
12	Felix Fischer	Resident Representative	IMF
13	Bridget Walker	Economist	Irish Aid
14	Jean Risopoulos	Economist - Investment Centre Division	FAO
15	Carlos Castel-Branco	Professor of Economics & Consultant	UEM
16	Paulo Cuinica	Head	G20
17	Alexander Bohr	ODAMOZ Consultant	MPD - DIC
18	Alexandre Zandamela	Director	MINEC - NAO
19	Hanifa Ibraimo	Tecnica	MPD - DNP
20	Cristina Matusse	Head of Department	MPD - DNP
21	Caroline Ennis	Economist	MPD - DNP
22	Channing Arndt	Senior Economic Advisor	MPD - DNEAP
23	Elias Mangujo	Deputy National Director of Planning & Cooperation	MISAU - DNPC
24	Fernando Songane	PROAGRI Coordinator	MINAG - DE
25	Francisco Pereira	President	National Road Fund
26	Frederico Castelo Chipuale	Lawyer	National Road Fund
27	Lazaro Joao Moiane	Internal Auditor	National Road Fund

ANNEX 6

MOZAMBIQUE: DELMOZ ORGANOGRAM



Source: DELMOZ Website: http://www.delmoz.ec.europa.eu/en/excel_files/organigramme.xls.

ANNEX 7

MOZAMBIQUE: PAP'S PAF MATRIX 2006

European Union (EU) Performance Vis-à-vis the PAPs' PAF Matrix in 2006

Objectives	Activities	No	Indicators	Target	Executed	Points		
Portfolio Composition (25% of total points)	GBS	1	% of GBS in total PAPs aid flows disbursed to the GoM.	40%	36%	0		
	Program Aid	2	% of program aid in total PAPs aid disbursed to the GoM.	70%	55%	0		
Predictability (35% of total points)	Commitment of funds	3	% of PAPs with multi-year agreements of not less than 3 years.	Yes	Yes	4		
		4	Commitments of GBS for year n+1 within 4 weeks of the JR in year n	Yes	Yes	4		
	Disbursement	5	Disbursement of confirmed GBS commitment in the fiscal year for which it was scheduled, according to precise quarterly disbursement schedule agreed with GoM	Yes	Yes	6		
Harmonization and Alignment (35% of total points)	Consolidation and harmonization of conditionality	6	PAPs adhere strictly to GBS common conditionality.	Yes	Yes	2		
		7	(a) number of PAPs not having Annex 10 exceptions; (b) number of PAPs significantly reducing annex 10 exceptions with a view to eliminating such exceptions.	7(a) 13 7(b) 2	No exceptions	2		
		8	Strict harmonization between all new bilateral agreements and MoU	Yes	Waiting	-		
	Utilization of government systems and reporting	9	% of PAPs aid flows to the government reported to the budget	80%	To be confirmed	0/2 (?)		
		10	% of PAPs aid flows to the government included in the Treasury payment system	45%	47%	1		
		11	% of PAPs aid flows to government using public procurement systems	45%	47%	1		
		12	Implementation and evaluation reports required by the PAP from the government outside established normal government reporting systems are eliminated (excluding projects, which have their own reporting system; and audits).	No extra reports and audits	No	1		
		13	Significantly <i>reduce the overall number of missions</i> for evaluation and appraisal undertaken by officials of donor countries involving meetings with government officials, AND significantly increase the share of those missions that are joint.	No. of GBS missions outside JR & MYR < 7 No. of Non-GBS missions < 160 Share of joint missions: 20%	Non-GBS = 18 Joint = 5%	0		
		14	Analytical work at country level related to development, implementation and impact evaluation of government programs and policies AND involving government officials is undertaken jointly with other donors and in line with government priorities and strategies.	In line with GoM priorities: 80% Joint: 50%	6 studies, all joint	1		
		15	Donors agree and implement "quiet period" with GoM.	Respect "quiet period" agreed.	Yes	1		
		Total Points						23

ANNEX 8

PERU: LIST OF PEOPLE INTERVIEWED

Peruvian Agency for International Cooperation - APCI

Agustín Haya de la Torre
Executive Director

Roddy Rivas –Llosa M
Manager; Policy and Programs

Presidency of the Council of Ministers - PCM

Maria Lila Iwasaki
Secretary General
President of the Board - APCI

Ruth Jerónimo
Head - Cooperation, Planning & Budget

EU Delegation Perú

Ambassador Ignacio Sobrino
Head of Delegation

Karl Heinz-Voguel
Cooperation Attache

Ministry of Economy and Finance - MEF

Rafael Capristan
Director General of Multi-annual Programing (DGPM)

Ministry of Women and Social Development - MINDES

Victor Lora
Head of Advisory Group

Spanish Agency for International Cooperation AECI

Luis Puentes
Responsible of Gobernability Area

German Embassy

First Secretary, Christian Olk
Head of Cooperation

United Nations Development Program - UNDP

Luis Vargas Aybar
Coordinator Human Development

José Gonzáles –Vigil Alarcón
Program Manager

Defensoría del Pueblo

Silvia Esquivés
Cooperation Office

Aurora Rivas
Head, International Cooperation

World Bank

Jorge Luis Archimbaud
Senior Country Officer

EC-AIDCO

Luc Bagur
Head of Unit
Coordination and Organization Strategies

Mehta Currey
Europe Aid

ANNEX 9

**PRESENTATION TO THE COMMITTEE ON
DEVELOPMENT**

'A SNAPSHOT OF EC AID EFFECTIVENESS IN 2007'

odi
Overseas Development Institute

A snapshot of EC Aid Effectiveness in 2007

Presentation to Committee on Development, European Parliament, Brussels
16th, July 2007

Andrew Lawson & Alina Rocha Menocal

odi

Presentation Structure

1. Context and Objectives of the Study
2. Overview of Key Findings
3. Characteristics of the Case study Countries
4. Progress in Harmonisation & Alignment
5. Quality of the EC contributions
6. Common problems identified
7. Recommendations for the Committee on Development

2

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1. Context for the Study and Objectives

- Follow-up to the Report of Alain Hutchinson MEP and to the 3 Commission communications of April 2006
- Three key questions to explore:
 - Are the EC's policies and programmes consistent with the key elements of the Paris Declaration?
 - In what ways is the EC working with other EU member states to promote the principles of Ownership, Alignment and Harmonisation?
 - What lessons can be learnt from the experience of EC development assistance in different countries and contexts?
- Recent publication of OECD-DAC peer review of EC Development Cooperation provides point of comparison.

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2. Overview of Key Conclusions

- Overall, there appears to have been progress towards the Paris Declaration objectives & increased EC Aid effectiveness
- All EC staff and consultants interviewed showed strong awareness of PD objectives and considerable dedication to achieving them
- Nevertheless, progress has been slow & uneven with aid dependent countries leading and the lower middle income countries lagging
- A number of common problems emerge, several of which the CoD may be able to influence.

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3. Characteristics of the Case study countries: a)

	CAMBODIA	MOZAMBIQUE	PERU
Country Type	Fragile State	Aid Dependent	Lower Middle Income
GNI per cap 2005	\$ 380	\$ 310	\$ 2,610
ODA as % GDP	10 %	17 %	0.5 %
EC as % ODA 2005	3.8 % (\$20.3m)	8.4 % (\$162.6m)	10.6 % (\$42.2m)
EU bilaterals as % ODA, 2005	23.9 %	32.1%	39.3%
No. EU bilaterals	15	16	17

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3. Characteristics of the Case study countries: b) Governance ratings

World Bank governance indicators for Cambodia, Peru and Mozambique, 2005

6

4. Progress in Harmonisation and Alignment in the 3 countries: a)

- ❑ **Mozambique** has made the most progress:
 - High volume of GBS and SBS
 - Several functioning common pool funds
 - Strong coordination structures, especially for GBS
 - Information on donor projects relatively good
 - BUT: Lack of Government leadership constrains progress
- ❑ **Peru** has seen least progress:
 - No clear national plan and responsibilities for aid coordination are divided.
 - Limited donor commitment to harmonization
 - Large number of off budget projects run by NGOs.
 - But some examples of coordination, eg Common Pool fund for Ombudsman

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4. Progress in Harmonisation and Alignment in the 3 countries: b)

- ❑ **Cambodia** also showing progress, after a stalled start:
 - Strongest Government leadership of the 3 countries, with clear policy statements + coordinating structures.
 - Good sector coordination in Health and Education
 - Effective trust fund for PFM reform
 - Coordinated framework emerging for budget support
 - Yet still many projects overall and many off-budget projects, which are poorly documented.

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5. Quality of EC Contributions a)

- ❑ In **Mozambique**, EC perceived as a leader in H & A efforts:
 - Took active role in promoting development of a joint assistance strategy across 19 agencies and NIP is closely aligned to GoM
 - Is a leading light within the GBS group (G-20), in funding of common pool for SISTAFE reform, also within ProAgri – the agriculture SWAp.
 - Has financed development of project data-base – ODAMOZ
- ❑ In **Cambodia**, EC has supported H & A but with less results:
 - Support to the Education SWAp most notable achievement.
 - NIP well aligned to RGC priorities but CSP was developed in isolation from other agencies and with limited consultation with RGC
 - EC continues to fund many poorly documented, NGO activities and too many projects overall
 - Roadmap for EU harmonisation prepared but precise role of EC unclear & role of Roadmap in relation to donor-wide harmonisation efforts also unclear

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5. Quality of EC Contributions: b)

- ❑ In **Peru**, the EC has had a low key role:
 - Despite first meeting in April 2007, coordination across EU Member States not operational
 - EC active in five of 16 sector taskforces; and also provides support to the Government's aid coordination agency.
 - Yet EC has not pressed government to unify aid coordination processes
 - EC Country Strategy Paper not conceived as a joint exercise and involved only limited consultation.
 - Fundamental question of the right role for EC in Middle Income Countries such as Peru does not appear to have been addressed.

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6. Common problems emerging: a) Overarching Issues

- ❑ Need for recipient **Government Leadership** over Policy Ownership, Alignment and Harmonisation:
 - In the absence of a clear (and acceptable) policy, alignment cannot progress – a major problem in Peru.
 - In the absence of effective institution building and systems development, government systems cannot be used.
 - These constraints must be clearly recognised, and perhaps CoD can engage in dialogue at political level to address them.
- ❑ There are **too many donor agencies**, with often inconsistent commitment to harmonisation:
 - This makes harmonisation a very time intensive process.
 - Attention must be given to preventing further proliferation of EU bilateral donors – both new Member States and regional bodies.

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6. Common problems emerging: b) EC procedural and funding issues

- ❑ Significance of **Budget and Thematic lines**, not subject to country programming processes, (see OECD-DAC peer review):
 - In Cambodia = 1/3 of programme & 64 out of 76 projects;
 - In Mozambique = 38 % in 2005, declining to 25 % in 2007.
 - In Peru, about half of programme.
- ❑ Despite reforms, **financial management and contracting procedures still too complicated** & subject to centralised checks.
- ❑ Despite "deconcentration", **authority remains unnecessarily centralised**. (See also OECD-DAC peer review.)
- ❑ **Staff numbers and capabilities** not adequate to fully support H & A efforts and to permit a wider coordinating role over EU aid.
 - Options: narrower role; less Delegations so as to concentrate staff; more use of local staff for Admin roles; more exchange with EU Member States

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**6. Common problems emerging:
c) Strategic issues for the EC**

- ❑ **Country Strategy Papers** must have greater significance & substance:
 - The central strategy document for country programming: for bigger programmes CoD might adopt review role ?
 - Must involve extensive consultation with Government.
 - Ideally, analysis should be done jointly with EU Member States and other donors
- ❑ **A policy for MICs** not covered by Pre-accession and European Neighbourhood provisions must be developed.
- ❑ **“Federating” role of EC** as coordinator of EU development assistance needs clarification:
 - Role of EC as convener of meetings and organiser of information sharing is accepted;
 - Member States do not see EC legitimacy extending further.

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7. Recommendations for the Committee on Development:

Four Short-term Priorities:

- ❑ Declare a move away from management of budget lines, to wider strategic role, commenting on Country Strategy Papers and assessing progress against results.
- ❑ Undertake more frequent country visits to assess results and dialogue with political counterparts
- ❑ Create ad hoc working groups (with EC) on the specific operational issues here mentioned.
- ❑ Lead a dialogue with Member States on operationalisation of EU aid harmonisation policy.

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